

# STATE OF HAWAII

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2014



**KERRY K. YONESHIGE**  
COMPTROLLER

# HAWAII

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FOR THE FISCAL YEAR  
ENDED JUNE 30, 2014



**KERRY K. YONESHIGE**  
COMPTROLLER

Prepared by Accounting Division  
Department of Accounting and General Services

Independent Audit Contracted and Administered by  
Office of the State Auditor

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**Comprehensive Annual Financial Report**  
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## **PART I: INTRODUCTORY SECTION**

**State of Hawaii**  
**Principal Officials for Finance-Related Functions**  
**June 30, 2014**

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**Kerry K. Yoneshige**  
**Comptroller**

**Governor**

**David Y. Ige**

**Director of Finance**

**Wesley K. Machida**

**Director of Taxation**

**Maria E. Zielinski**

**Comptroller**

**Kerry K. Yoneshige**

**Notes:**

The Director of Finance is also department head of the Department of Budget and Finance.

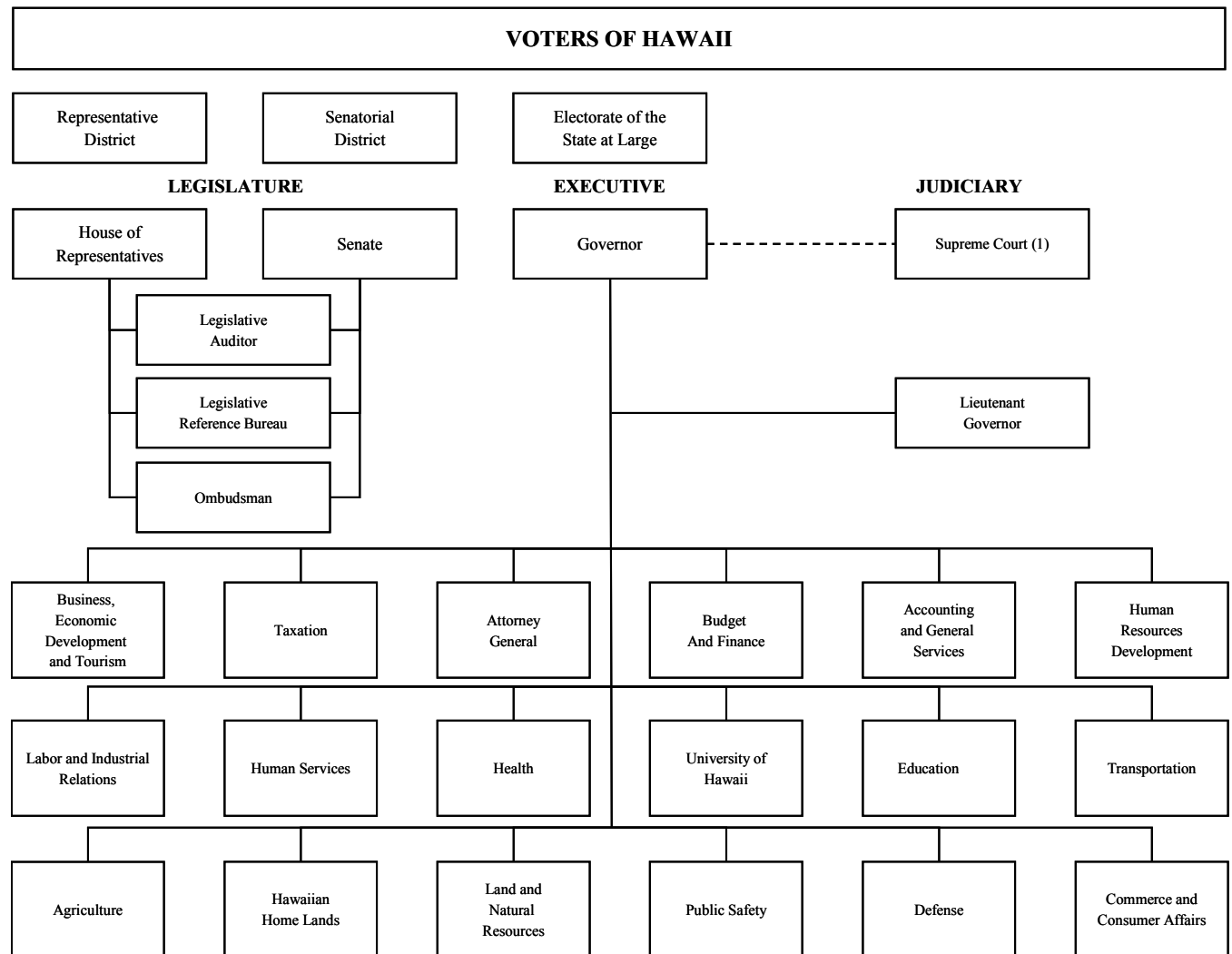
The Comptroller is also department head of the Department of Accounting and General Services.

An organizational chart including those and other departments and agencies of the State of Hawaii government is presented on the following page.



**State of Hawaii**  
**Organizational Chart**  
**June 30, 2014**

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(1) The Governor's appointment of justices of the Supreme Court confirmed by the Senate.



STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING  
AND GENERAL SERVICES  
P.O. BOX 119  
HONOLULU, HAWAII 96810-0119

December 31, 2014

To the Honorable Governor of the State of Hawaii  
To the Honorable Members of the Twenty-Eighth State  
Legislature of the State of Hawaii

In accordance with the provisions of Section 40-5 of the Hawaii Revised Statutes, it is our privilege to present to you the Comprehensive Annual Financial Report (CAFR) of the State of Hawaii (the State) for the fiscal year ended June 30, 2014. The State's Department of Accounting and General Services has prepared this report. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the State. We believe the information, as presented, is fairly stated in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the State as measured by the financial activity of its various funds; and that all the information necessary to enable the reader to gain the maximum understanding of the State's financial affairs has been included.

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of management's discussion and analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The State's MD&A is included in Part II of this report.

## THE REPORTING ENTITY AND ITS SERVICES

With Hawaii's highly centralized state government, the State provides a full range of services as mandated by statute. These services include, but are not limited to, education (lower and higher), welfare, transportation (highways, airports, and harbors), health, hospitals, public safety, housing, culture and recreation, economic development, and conservation of natural resources.

This report includes the various funds comprising the State, including all entities that are accountable to the State. The Employees' Retirement System of the State of Hawaii, which is administered on behalf of public employees for both the state and county governments, and the Office of Hawaiian Affairs, which exists for the betterment of the conditions of native Hawaiians, are not included in the State's basic financial statements because those agencies, based on their fiscal independence and/or separate legal entity status, are not accountable to the State.

## **FACTORS AFFECTING FINANCIAL CONDITION**

The information presented in the basic financial statements is perhaps best understood when considered from the broader perspective of the specific environment within which the State operates.

### **State of the Economy**

#### ***Overview***

During the third quarter of 2014, Hawaii's economic indicators for the tourism industry, tax revenues, the construction industry, and unemployment were mostly positive. The civilian labor force and the total non-agricultural wage and salary jobs increased.

#### ***Labor***

After ten consecutive quarterly decreases in jobs from the second quarter of 2008 to the third quarter of 2010, Hawaii's jobs increased for the 16th consecutive quarter. During the first nine months of 2014, Hawaii's total civilian employment averaged 632,550 persons, an increase of 15,750 persons or 2.6% over the same period in 2013. The number of wage and salary jobs was up 8,150 to 628,450 for an increase of 1.3%. Job increases were most notable in government (2,000), food services and drinking places (1,400), and professional and business services (1,100). A few sectors experienced declines including retail trade (200), natural resources, mining and construction (50), and information (50). Hawaii's civilian unemployment rate (not seasonally adjusted) averaged 4.4% for the first nine months of 2014, compared to 4.8% for the same period in 2013.

#### ***Taxes***

Tax revenues distributed to the State's General Fund decreased \$44.3 million, or 1.1%, during the first nine months of 2014 compared to the same period in 2013. Among its components, individual net income tax collections remained about the same with a slight decrease of \$652,000 or 0.0%, general excise and use tax (GET) collections increased \$28.7 million, or 1.3%, and transient accommodations tax (TAT) collections were up \$19.1 million, or 6.4%.

#### ***Personal Income***

Total nominal personal income, not adjusted for inflation, increased \$4.6 billion, or 3.7% in the first half of 2014 compared to the same period in 2013. Among its components, the fastest growth was seen in personal current transfer receipts of 7.1%, dividends, interest and rent of 3.8%, and wages and salary disbursements of 3.0%. Contributions for government social insurance, which are subtracted from personal income, decreased by 4.3%.

#### ***Prices***

Honolulu's consumer price index (CPI) increased 1.1% for the first half of 2014 compared to the same period in 2013, lower than the 1.7% United States (U.S.) average CPI-U increase. The Honolulu increase was primarily due to increases in education and communication (2.7%), recreation (2.5%), transportation (2.1%), and medical care (1.4%). The prices also increased for food and beverage (1.0%), housing (0.9%), and other goods and services (0.8%). The price decreased for apparel (5.9%).

### **Recent Developments in Hawaii's Major Industries**

#### ***Visitor Industry***

In the first nine months of 2014, total visitor arrivals by air increased 55,003 or 0.9% compared to the same period of 2013. Domestic arrivals (visitors on flights originating inside of the U.S.) decreased 0.3% while international arrivals increased 3.6%. Total visitor days (visitor arrivals multiplied by average length of stay) were down 0.1% in the first nine months of 2014 compared to the same period of 2013 and total visitor spending increased \$230.7 million or 2.1% over the same

period. Statewide hotel occupancy rate averaged 77.3% in the first half of 2014, 0.7% lower than the average rate during the same period of 2013.

### **Construction**

Hawaii's construction industry was one of the major contributors to job growth during the 2002–2007 years. Since the second quarter of 2008 to the second quarter of 2011, the quarter-over-quarter growth rate has been negative. However, in the third quarter of 2014, the construction sector gained 150 jobs or 0.5% compared with the same quarter of 2013. During the first nine months of 2014, construction jobs decreased by 50 or 0.2% compared to the same period of 2013. The total value of new private building authorizations increased \$332.9 million or 15.9% for the first nine months of 2014 compared to the same period of 2013.

### **Outlook for Hawaii's Economy**

The latest Department of Business, Economic Development and Tourism (DBEDT) forecast for Hawaii's economy is continued positive growth for the rest of 2014 and into 2015. Hawaii's economy depends significantly on conditions in the U.S. economy and key international economies. International conditions or prospects that affect Hawaii's economy such as Japan's financial crisis and China's slower economic growth. The November 2014 Blue Chip Economic Consensus Forecasts expected real GDP growth in 2015 to increase 3.0% for the U.S. and 1.3% for Japan.

In 2015, visitor arrivals, visitor days and visitor expenditures are predicted to increase 1.9%, 2.2% and 3.6%, respectively.

DBEDT projects total non-agricultural wage and salary jobs to increase 1.5% in 2015. Real Personal Income is expected to increase 2.5% in 2015 with real GDP projected to increase 2.8% in 2015.

DBEDT projects Hawaii's inflation, as measured in terms of changes in the Honolulu CPI, to increase 2.2% in 2015. The State GDP deflator is expected to grow 2.1% in 2015.

### **ACCOUNTING SYSTEM AND BUDGETARY CONTROL**

In developing and maintaining the State's accounting system, consideration is given to the effectiveness of internal control, which is designed to accomplish certain objectives of management, including:

1. Transactions are executed in accordance with management's general and specific authorization.
2. Transactions are recorded as necessary to permit preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) and to maintain accountability for assets.
3. Access to assets is permitted only in accordance with management's authorization.

Internal controls are designed to provide reasonable, but not absolute, assurance that the above objectives were accomplished. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from that control. The evaluation of costs and benefits requires estimates and judgments by management. We believe that the State's internal controls are effective in accomplishing management's objectives.

By statutory provision, the State prepares a biennial budget for its programs. Budgeted expenditures are derived primarily from the General Appropriations Act of 2013 and from other authorizations contained in the State Constitution, the Hawaii Revised Statutes, and other specific appropriations acts in various Session Laws of Hawaii. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year.

An allotment system and encumbrance accounting are utilized by the State for budgetary control purposes. Obligations in the form of purchase orders or contracts are recorded as encumbrances at the time purchase orders or contracts are awarded and executed. To the extent not expended or encumbered, General Fund and Special Revenue Fund appropriations subject to budgetary control generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse date and any other particular conditions relating to terminating the authorizations for other appropriations.

## **EMPLOYEE UNION CONTRACTS**

The State Constitution grants public employees in Hawaii the right to organize for the purpose of collective bargaining as provided by law. In 2013, the Legislature created a new bargaining unit. This bargaining unit will be composed of State and county employees, relocating individuals from two existing collective bargaining units into the new Bargaining Unit 14. The Hawaii Government Employees Association is currently engaged in the collective bargaining process with the employer for an initial collective bargaining agreement for this new unit.

Of the other 13 collective bargaining units, 12 include State employees. Six units have collective bargaining agreements in effect through June 30, 2015 and those bargaining units are currently engaged in the collective bargaining process with the employer. Seven units have collective bargaining agreements that will be in effect through June 30, 2017.

## **INDEPENDENT AUDIT**

Although the State statutes do not require an annual audit of the State's financial statements, the State engaged a firm of independent certified public accountants to audit the State's basic financial statements for the fiscal year ended June 30, 2014. The independent auditors' report has been included in Part II of this report.

## **CERTIFICATE OF ACHIEVEMENT**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

## ACKNOWLEDGEMENTS

We extend our appreciation to the staff of the various State agencies whose dedicated time and effort made the preparation of this report possible. Their combined efforts have produced a report that we believe will serve as a helpful source of information for anyone having an interest in the financial operations of the State.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Kerry K. Yoneshige". The signature is fluid and cursive, with the first name "Kerry" being more prominent.

KERRY K. YONESHIGE  
Comptroller, State of Hawaii



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**State of Hawaii**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2013**

A handwritten signature in dark ink, reading "Jeffrey R. Egan". The signature is written in a cursive style with a prominent 'J' and 'E'.

Executive Director/CEO

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## **PART II: FINANCIAL SECTION**

## Report of Independent Auditors

The Auditor  
State of Hawaii

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii (the State) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State of Hawaii's basic financial statements (pages 30–106) as listed in the accompanying table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express opinions on these respective financial statements based on our audit. We did not audit the financial statements of the Department of Transportation – Airports and Harbors Divisions, which are major enterprise funds; the Hawaii Employer-Union Health Benefits Trust Fund, the Water Pollution Control Revolving Fund and the Drinking Water Treatment Revolving Loan Fund, which are nonmajor enterprise funds; the Hawaii Employer-Union Health Benefits Trust Fund, an agency of the State; and the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation which are discretely presented component units, which represent the following percentages of total assets and revenues and additions for the indicated opinion units.

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Revenues/Additions
Business-Type Activities	92 %	67 %
Aggregate Discretely Presented Component Units	26 %	36 %
Fiduciary Funds	59 %	7 %

Those financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Department of Transportation – Airports and Harbors Divisions, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, the Hawaii Employer-Union Health Benefits Trust Fund, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation, is based solely on the reports of the other auditors. The reports on the Department of Transportation – Airports and Harbors Divisions, and Hawaii Health Systems Corporation contain an emphasis-of-matter paragraph relating to the adoption of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 14–27), budgetary comparison information (pages 109–112 and 120–126), and Schedules of Funding Progress (page 113) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Hawaii's basic financial statements. The combining and individual fund statements and schedules (pages 116–119 and 127–131), introductory section (pages 1–8) and statistical section (pages 134–167) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements and schedules are the responsibility of the State of Hawaii's management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the combining and individual fund statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on them.

### ***Change in Accounting Principle***

As discussed in Note 1 to the financial statements, in 2014 the State adopted new accounting guidance, *GASB Statement No. 65, Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2014, on our consideration of the State of Hawaii's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Hawaii's internal control over financial reporting and compliance.

*Accuity LLP*

Honolulu, Hawaii  
December 31, 2014

# State of Hawaii

## Management's Discussion and Analysis (Unaudited)

### June 30, 2014

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As management of the State of Hawaii (the State), we offer readers of the State's basic financial statements this narrative overview and analysis of the financial activities of the State for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished in our letter of transmittal, which can be found on pages 3–7 of this report.

#### Financial Highlights

##### Government-Wide Highlights

The assets of the State exceeded its liabilities at June 30, 2014 by \$4.7 billion (net position). Unrestricted net position, which may be used to meet the State's ongoing obligations to citizens and creditors, was a negative \$2.0 billion, a decrease of \$250.6 million from the previous year. Net position of governmental activities and business-type activities decreased by \$423.2 million and increased by \$305.4 million, respectively. The combined decrease to the State was \$117.8 million from the prior fiscal year.

##### Fund Highlights

At June 30, 2014, the State's Governmental Funds reported combined ending fund balances of \$2.0 billion, an increase of \$76.6 million from the prior fiscal year. Of this amount, \$1.3 billion, or 66.4%, of total fund balances was in the General Fund, and the remaining \$676.0 million represent amounts in other funds designated for specific purposes. The Proprietary Funds reported net fund position of \$3.9 billion at June 30, 2014, an increase of \$305.4 million during the fiscal year.

##### Liabilities

The State's liabilities increased during the current fiscal year to \$13.6 billion, an increase of \$596.7 million. During fiscal 2014, the State issued General Obligation bonds in the amount of \$171.1 million to advance refund \$181.1 million of previously issued outstanding General Obligation bonds. In addition, the State issued \$635.0 million in General Obligation bonds and \$54.8 million in taxable General Obligation bonds for the purpose of financing or reimbursing the State of Hawaii for the Hawaiian Home Lands Settlement and for financing capital projects. During fiscal 2014, the State issued Revenue Bonds in the amount of \$23.6 million to refund previously issued outstanding Revenue Bonds.

In accordance with GASB Statement No. 45, *Accounting and Financial Reporting By Employers For Postemployment Benefits Other Than Pensions*, the State increased the liability for postemployment benefits other than pension, to \$3.4 billion, an increase of \$274.0 million for the fiscal year ended June 30, 2014.

#### Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements are comprised of three components: (1) Government-Wide financial statements, (2) fund financial statements, and (3) notes to basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

##### Government-Wide Financial Statements

The Government-Wide financial statements are designed to provide readers with a broad overview of the State's finances, in a manner similar to a private sector business.

The statement of net position presents information on all of the State's assets, deferred outflows of resources and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

# State of Hawaii

## Management's Discussion and Analysis (Unaudited)

### June 30, 2014

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The statement of activities presents information showing how the State's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and unused vacation leave).

Both of the Government-Wide financial statements distinguish functions of the State that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the State include general government, public safety, conservation of natural resources, highways, health, welfare, education, culture and recreation, urban redevelopment and housing, economic development and assistance, and interest on long-term debt. The business-type activities of the State include the Department of Transportation – Airports Division (Airports), Department of Transportation – Harbors Division (Harbors), and the Unemployment Compensation Fund, which are considered to be major funds, while the remaining business-type activities are combined into a single aggregate presentation.

The Government-Wide financial statements include not only the State itself (known as the Primary Government), but also the activities of seven legally separate Component Units: the Hawaii Community Development Authority, the Hawaii Health Systems Corporation, the Hawaii Housing Finance and Development Corporation, the Hawaii Hurricane Relief Fund, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, and the University of Hawaii, comprised of the State's public institutions of higher education, for which the State is financially accountable. Financial information for these Component Units is reported separately from the financial information presented for the Primary Government itself. The Component Units issue separate financial statements containing management's discussion and analysis.

The Government-Wide financial statements can be found on pages 30–32 of this report.

#### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the State can be divided into three categories: (1) Governmental Funds, (2) Proprietary Funds, and (3) Fiduciary Funds.

#### ***Governmental Funds***

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the Government-Wide financial statements. However, unlike the Government-Wide financial statements, Governmental Funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the State's near-term financing requirements.

Because the focus of Governmental Funds is narrower than that of the Government-Wide financial statements, it is useful to compare the information presented for Governmental Funds with similar information presented for governmental activities in the Government-Wide financial statements. By doing so, readers may better understand the long-term impact of the State's near-term financing decisions. Both the Governmental Funds balance sheet and the Governmental Funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between Governmental Funds and governmental activities in the Government-Wide financial statements.

# State of Hawaii

## Management's Discussion and Analysis (Unaudited)

### June 30, 2014

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Information is presented separately in the Governmental Funds balance sheet and in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund, Capital Projects Fund, and Med-Quest Special Revenue Fund, each of which is considered to be a major fund. Data from the other Governmental Funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor Governmental Funds is provided in the form of combining financial statements in the supplementary information section of this report.

The State adopts an annual appropriated budget for its General Fund and Special Revenue Funds. A budgetary comparison schedule has been provided for the General Fund and each Special Revenue Fund to demonstrate compliance with this budget. The budgetary comparison schedule for the General Fund is located in the required supplementary information and the budgetary comparison statements for each of the Special Revenue Funds are located in the supplementary information section of this report.

The basic Governmental Funds financial statements can be found on pages 34–37 of this report.

#### ***Proprietary Funds***

Proprietary Funds are used to show activities that operate more like those of commercial enterprises. They are known as Enterprise Funds because they charge fees for services provided to outsiders. They are used to report the same functions presented as business-type activities in the Government-Wide financial statements. The State uses Enterprise Funds to account for the operations of Airports, Harbors, the Unemployment Compensation Fund, and its other business-type activities.

Proprietary Funds provide the same type of information as the Government-Wide financial statements, only in more detail. The Proprietary Funds financial statements provide separate information for Airports, Harbors, and the Unemployment Compensation Fund, each of which are considered to be major funds of the State. Conversely, the other business-type activities are combined into a single, aggregate presentation in the Proprietary Funds financial statements.

The basic Proprietary Funds financial statements can be found on pages 38–42 of this report.

#### ***Fiduciary Funds***

Fiduciary Funds are used to account for resources held for the benefit of parties outside the State. Fiduciary Funds are not reflected in the Government-Wide financial statements because the resources of those funds are not available to support the State's own programs. The accounting used for Fiduciary Funds is much like that used for Proprietary Funds.

The basic Fiduciary Funds financial statements can be found on pages 43–44 of this report.

#### ***Notes to Basic Financial Statements***

The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the Government-Wide and fund financial statements.

The notes to basic financial statements can be found on pages 52–106 of this report.

#### **Other Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report presents the combining financial statements referred to earlier in connection with nonmajor Governmental, Proprietary and Fiduciary Funds. These statements are presented immediately following the notes to basic financial statements. The total columns of these combining financial statements carry to the applicable fund financial statements.

**State of Hawaii**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2014**

**Government-Wide Financial Analysis**

The following financial analysis focuses on the Primary Government (governmental and business-type activities of the State). Separate financial statements for each of the State's Component Units, including their respective management's discussion and analysis, can be obtained from the Department of Accounting and General Services.

Net position is a useful indicator of a government's financial position. For the State, total assets exceed liabilities by \$4.7 billion as of June 30, 2014, and net position decreased \$117.9 million, or 2.5%, over the course of this fiscal year's operations. The net position of the governmental activities decreased by \$423.2 million, or 34.5%, and business-type activities had an increase of \$305.4 million, or 8.6%. The following table was derived from the Government-Wide Statement of Net Position.

**Summary Schedule of Net Position**  
**June 30, 2014 and 2013**  
**(Amounts in thousands)**

	Primary Government				Total	
	Governmental Activities		Business-Type Activities		2014	2013
	2014	2013 As Restated	2014	2013 As Restated		
<b>Assets</b>						
Current and other assets	\$ 3,522,709	\$ 3,530,384	\$ 2,978,774	\$ 2,659,165	\$ 6,501,483	\$ 6,189,549
Capital assets, net	8,978,930	8,929,329	2,671,775	2,533,079	11,650,705	11,462,408
Total assets	<u>\$ 12,501,639</u>	<u>\$ 12,459,713</u>	<u>\$ 5,650,549</u>	<u>\$ 5,192,244</u>	<u>\$ 18,152,188</u>	<u>\$ 17,651,957</u>
<b>Deferred outflows of resources</b>						
Deferred loss on refunding	\$ 96,843	\$ 116,588	\$ 9,334	\$ 10,952	\$ 106,177	\$ 127,540
Total deferred outflows of resources	<u>\$ 96,843</u>	<u>\$ 116,588</u>	<u>\$ 9,334</u>	<u>\$ 10,952</u>	<u>\$ 106,177</u>	<u>\$ 127,540</u>
<b>Liabilities</b>						
Long-term liabilities	\$ 10,001,076	\$ 9,508,549	\$ 1,610,731	\$ 1,433,798	\$ 11,611,807	\$ 10,942,347
Other liabilities	1,792,573	1,839,670	183,718	209,360	1,976,291	2,049,030
Total liabilities	<u>\$ 11,793,649</u>	<u>\$ 11,348,219</u>	<u>\$ 1,794,449</u>	<u>\$ 1,643,158</u>	<u>\$ 13,588,098</u>	<u>\$ 12,991,377</u>
<b>Net position</b>						
Net investment in capital assets	\$ 2,772,220	\$ 2,863,379	\$ 1,653,902	\$ 1,599,483	\$ 4,426,122	\$ 4,462,862
Restricted	1,128,678	1,051,548	1,160,551	1,068,146	2,289,229	2,119,694
Unrestricted	(3,096,065)	(2,686,845)	1,050,981	892,409	(2,045,084)	(1,794,436)
Total net position (restated)	<u>\$ 804,833</u>	<u>\$ 1,228,082</u>	<u>\$ 3,865,434</u>	<u>\$ 3,560,038</u>	<u>\$ 4,670,267</u>	<u>\$ 4,788,120</u>

**Analysis of Net Position**

By far, the largest portion of the State's net position (\$4.4 billion or 94.8%) reflects its investment in capital assets (e.g., land, infrastructure, buildings, and equipment); less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net position (\$2.3 billion or 49.0%) represents resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining balance of negative \$2.0 billion or negative 43.8% represents unrestricted net position.



**State of Hawaii**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2014**

At June 30, 2014, the State is able to report positive balances in two of the categories of net position for governmental activities and all three categories for business-type activities. The negative balance of unrestricted net position for governmental activities is primarily attributed to the State's other postemployment benefit liability of \$3.3 billion.

***Changes in Net Position***

The State's net position decreased by \$117.9 million, or 2.5%, during the fiscal year ended June 30, 2014. Approximately 56.0% of the State's total revenues came from taxes, while 28.0% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 15.7% of the total revenues. The State's expenses cover a range of services. The largest expenses were for higher and lower education, welfare, health, general government, and highways.

The following financial information was derived from the Government-Wide Statement of Activities and reflects how the State's net position changed during the fiscal year.

**Summary Schedule of Changes in Net Position**  
**For the Fiscal Years Ended June 30, 2014 and 2013**  
**(Amounts in thousands)**

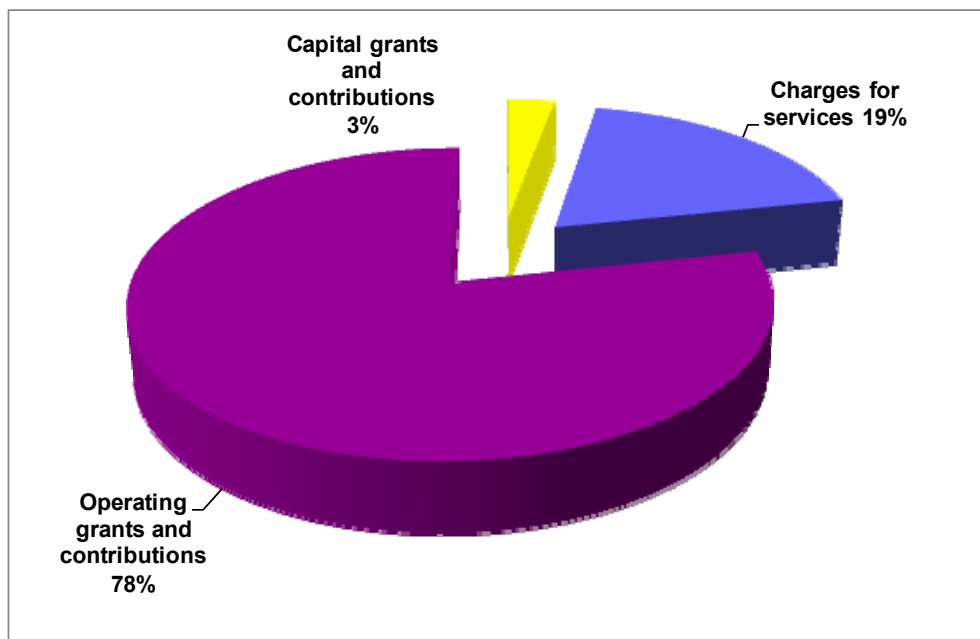
	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2014	2013 As Restated	2014	2013 As Restated	2014	2013 As Restated
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 641,341	\$ 494,647	\$ 961,967	\$ 1,154,047	\$ 1,603,308	\$ 1,648,694
Operating grants and contributions	2,660,770	2,589,537	-	-	2,660,770	2,589,537
Capital grants and contributions	97,290	96,184	98,628	64,313	195,918	160,497
General revenues						
Taxes	5,698,560	5,796,549	-	-	5,698,560	5,796,549
Investment income and other	13,163	25,502	12,805	33,633	25,968	59,135
Total revenues	9,111,124	9,002,419	1,073,400	1,251,993	10,184,524	10,254,412
<b>Expenses</b>						
General government	567,941	532,471	-	-	567,941	532,471
Public safety	533,727	451,946	-	-	533,727	451,946
Highways	554,039	490,091	-	-	554,039	490,091
Conservation of natural resources	101,587	52,208	-	-	101,587	52,208
Health	849,493	813,190	-	-	849,493	813,190
Welfare	2,879,813	2,798,053	-	-	2,879,813	2,798,053
Lower education	2,685,037	2,592,125	-	-	2,685,037	2,592,125
Higher education	693,292	654,611	-	-	693,292	654,611
Other education	21,766	20,086	-	-	21,766	20,086
Culture and recreation	104,303	94,679	-	-	104,303	94,679
Urban redevelopment and housing	137,160	173,677	-	-	137,160	173,677
Economic development and assistance	166,455	172,602	-	-	166,455	172,602
Interest expense	239,760	241,677	-	-	239,760	241,677
Airports	-	-	346,699	365,828	346,699	365,828
Harbors	-	-	89,327	90,941	89,327	90,941
Unemployment compensation	-	-	244,947	336,931	244,947	336,931
Nonmajor proprietary fund	-	-	87,031	66,119	87,031	66,119
Total expenses	9,534,373	9,087,416	768,004	859,819	10,302,377	9,947,235
Change in net position	(423,249)	(84,997)	305,396	392,174	(117,853)	307,177
<b>Net position</b>						
Beginning of year (restated)	1,228,082	1,313,079	3,560,038	3,167,864	4,788,120	4,480,943
End of year	\$ 804,833	\$ 1,228,082	\$ 3,865,434	\$ 3,560,038	\$ 4,670,267	\$ 4,788,120

**State of Hawaii**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2014**

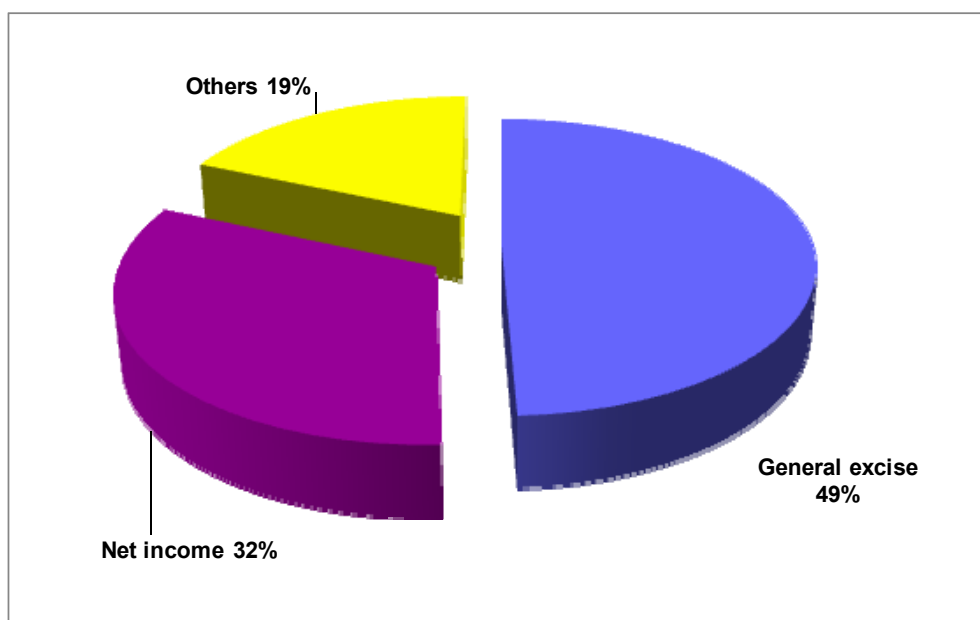
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The following charts depict revenues of the governmental activities for the fiscal year:

**Program Revenues by Source — Governmental Activities**  
**Fiscal Year Ended June 30, 2014**



**Tax Revenues by Source — Governmental Activities**  
**Fiscal Year Ended June 30, 2014**



**State of Hawaii**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2014**

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***Analysis of Changes in Net Position***

The State's net position decreased by \$117.9 million during the current fiscal year. This is explained in the governmental and business-type activities discussion, and is primarily due to decrease in net position of governmental activities of \$423.2 million offset by increases in net position of Unemployment Compensation Fund of \$116.0 million, Airports of \$125.9 million, Harbors of \$32.4 million, and Nonmajor Proprietary Funds of \$31.1 million.

***Governmental Activities***

Governmental activities decreased the State's net position by \$423.2 million. The elements of this decrease are reflected below:

	<b>Governmental Activities</b>	
	<b>(Amounts in thousands)</b>	
	<b>2013</b>	
	<b>2014</b>	<b>As Restated</b>
<b>General revenues</b>		
Taxes	\$ 5,698,560	\$ 5,796,549
Interest and investment income and other	13,163	25,502
Total general revenues	5,711,723	5,822,051
<b>Expenses, net of program revenues</b>		
General government	313,079	186,401
Public safety	423,136	407,183
Highways	354,953	313,526
Conservation of natural resources	14,412	(16,969)
Health	593,900	582,276
Welfare	876,936	929,893
Lower education	2,341,385	2,203,050
Higher education	693,292	654,611
Other education	21,766	20,086
Culture and recreation	87,011	91,430
Urban redevelopment and housing	96,056	141,583
Economic development and assistance	79,286	151,669
Interest expense	239,760	242,309
Total governmental activities expenses, net of program revenues	6,134,972	5,907,048
Decrease in governmental activities net position	\$ (423,249)	\$ (84,997)

Tax revenues decreased by \$98.0 million, or 1.7%, from the previous fiscal year. The decrease was primarily due to decrease in general excise taxes of \$175.4 million, offset by an increase in individual and corporate income taxes of \$45.2 million.

Interest and investment income decreased by \$12.3 million from the previous year. The decrease is primarily due to the fiscal year 2013 increase in the fair market value of the student loan auction rate securities of \$12.6 million upon the sale of these securities in fiscal year 2013.

# State of Hawaii

## Management's Discussion and Analysis (Unaudited)

### June 30, 2014

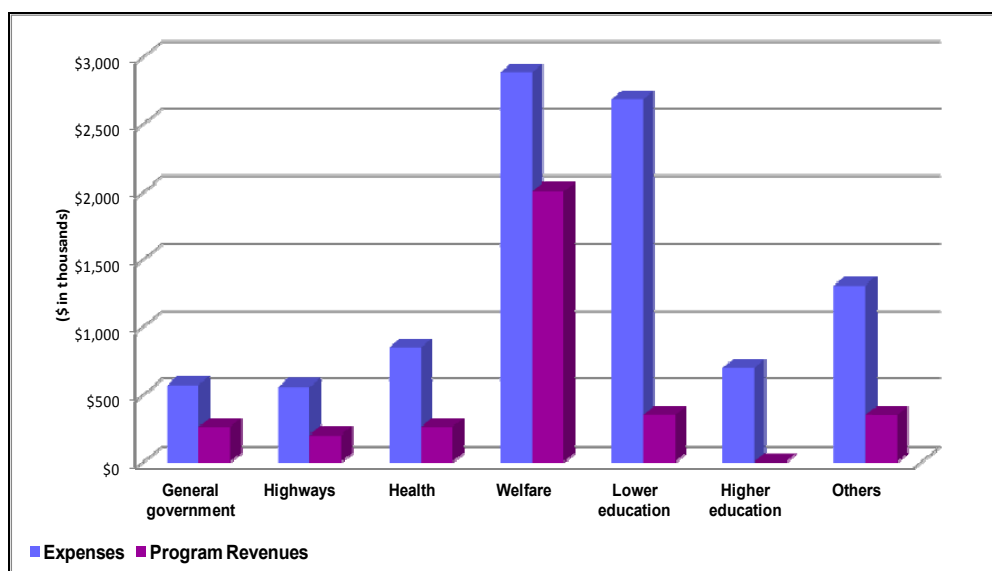
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General government net expenses increased \$126.7 million or 68% from the previous year. This change is primarily due to the decrease in operating grants and contributions in 2014 compared to 2013.

Lower education net expenses increased \$138.3 million or 6.3%. This change is primarily due to the increase in expenses and decrease in revenues for the school based budgeting program and the decrease of revenues for the school support program.

A comparison of the cost of services by function of the State's governmental activities is shown below, along with the revenues used to cover the net expenses of the governmental activities. This format identifies the extent to which each governmental function is self-financing through fees and intergovernmental aid or draws from the general revenues of the State:

**Expenses and Program Revenues — Governmental Activities**  
**Fiscal Year Ended June 30, 2014**



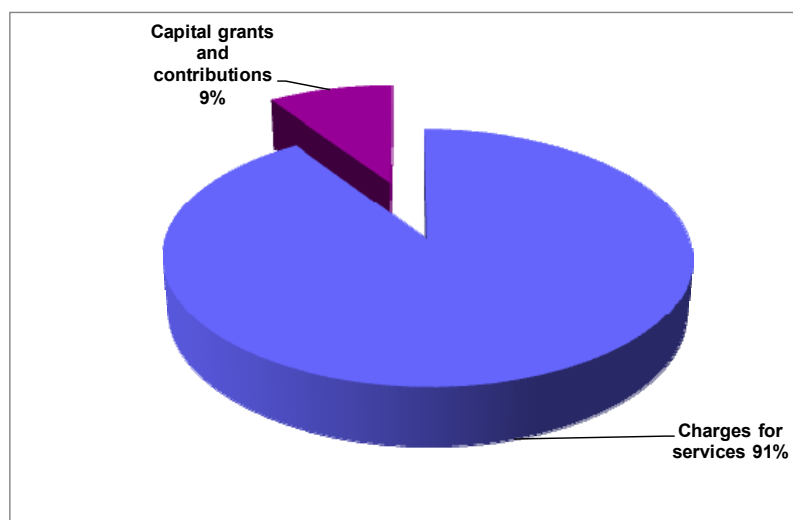
**State of Hawaii**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2014**

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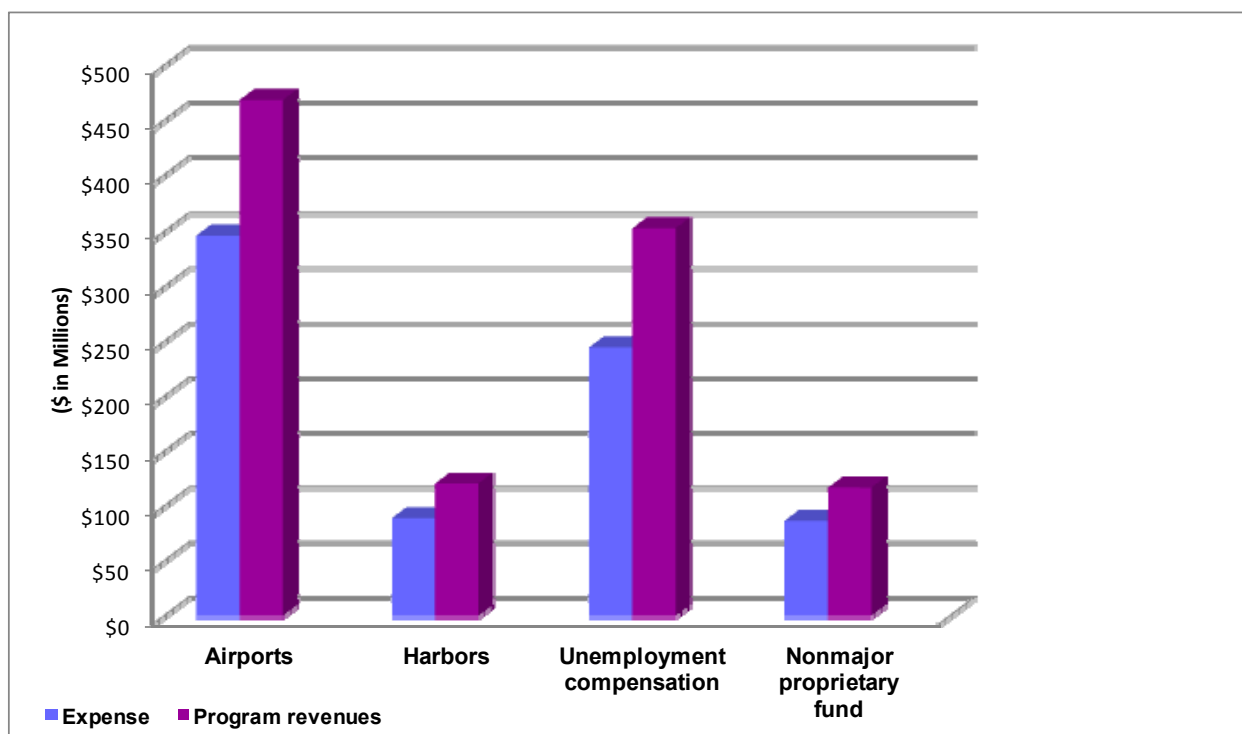
***Business-Type Activities***

The following charts depict revenues and expenses of the business-type activities for the fiscal year:

**Program Revenues by Source — Business-Type Activities**  
**Fiscal Year Ended June 30, 2014**



**Expenses and Program Revenues — Business-Type Activities**  
**Fiscal Year Ended June 30, 2014**



**State of Hawaii**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2014**

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Business-type activities increased the State's net position by \$305.4 million in fiscal 2014, compared to an increase of \$392.2 million in fiscal 2013. Key elements of this increase are as follows:

- Airport's net position increased \$125.9 million compared to an increase of \$122.6 million in the prior fiscal year. Charges for current services decreased by \$27.3 million primarily due to the decrease in landing fees, aeronautical revenues and concession revenues from a decrease in passenger traffic. Operating and capital grants and contributions increased \$33.7 million mainly due to an increase in federal capital and federal stimulus grants.
- Harbor's net position increased \$32.4 million in fiscal 2014 compared to an increase of \$27.8 million in fiscal 2013. Charges for current services increased by \$9.0 million offset by a decrease in capital contributions of \$4.1 million and a decrease in expenses of \$1.6 million.
- The Unemployment Compensation Fund's net position increased \$116.0 million compared to an increase of \$173.1 million in the prior fiscal year. The change was primarily due to a decrease in unemployment benefits paid of \$92.0 million offset by a decrease in unemployment tax revenues of \$153.6 million.
- The Nonmajor Proprietary Fund's net position increased \$31.1 million in fiscal 2014 compared to an increase of \$68.7 million in fiscal 2013. The change was primarily due to the operations of the Employer-Union Health Benefits Trust Fund (EUTF). EUTF's expenses for self-funded plans increased \$22.6 million while premium revenue for self-insurance plans decreased \$25.0 million.
- Key elements of the State's business-type activities for the fiscal years ended June 30, 2014 and 2013 are as follows:

	Business-Type Activities (Amounts in thousands)									
	Program Revenues						Expenses			
	Operating and Capital Grants and Contributions				Total					
	Charges for Services		Grants and Contributions							
	2014	2013	2014	2013	2014	2013	2014	As Restated	2014	As Restated
Airports	\$ 404,442	\$ 431,708	\$ 64,303	\$ 30,619	\$ 468,745	\$ 462,327	\$ 346,699	\$ 365,828	\$ 122,046	\$ 96,499
Harbors	121,038	112,060	-	4,115	121,038	116,175	89,327	90,941	31,711	25,234
Unemployment compensation	353,546	507,096	-	-	353,546	507,096	244,947	336,931	108,599	170,165
Nonmajor proprietary funds	82,941	103,183	34,325	29,579	117,266	132,762	87,031	66,119	30,235	66,643
Total	\$ 961,967	\$ 1,154,047	\$ 98,628	\$ 64,313	\$ 1,060,595	\$ 1,218,360	\$ 768,004	\$ 859,819	\$ 292,591	\$ 358,541

# State of Hawaii

## Management's Discussion and Analysis (Unaudited)

### June 30, 2014

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#### Financial Analysis of the State's Individual Funds

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

##### ***Governmental Funds***

The focus of the State's Governmental Funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. The fund balance classifications comprise a hierarchy based primarily on the extent the State is bound to honor constraints on the specific purpose for which amounts can be spent.

At the end of the fiscal year, the State's Governmental Funds reported combined ending fund balances of \$2.0 billion. Of this amount, \$27.1 million is restricted for specific programs by external constraints, constitutional provisions or contractual obligations. An additional \$497.9 million has been committed to specific purposes. An additional \$995.8 million has been assigned to specific purposes by management. The unassigned fund balance was \$490.8 million at fiscal year end. This amount includes a deficit of a negative unrestricted fund balance of \$545.5 million in the Capital Projects Fund, which indicates that the fund spent or committed more than what was expendable.

The General Fund is the chief operating fund of the State. At the end of the fiscal year, the total fund balance of the General Fund was \$1.3 billion compared to \$1.4 billion in fiscal 2013. This decrease is mainly attributed to the decrease in tax revenues. The fund balance of the State's Capital Projects Fund increased \$18.0 million during the fiscal year. The Capital Projects Fund deficit is the result of the State's policy of recording expenditures upon the allotment of general obligation bond appropriations expended by component units and incurring general obligation bond expenditures in excess of cash available. The deficit caused by the recording of expenditures when funds are allotted is \$558.4 million and is reflected on the balance sheet as Due to Component Units. The fund balance of the Med-Quest Special Fund and other Nonmajor Governmental Funds increased \$9.6 million and \$138.6 million, respectively.

##### ***Proprietary Funds***

The State's Proprietary Funds provide the same type of information found in the Government-Wide financial statements, but in more detail. At the end of the current fiscal year, Airports had an increase in net position of \$125.9 million, Harbors had an increase in net position of \$32.4 million, the Unemployment Compensation Fund had an increase in net position of \$116.0 million, and the Nonmajor Proprietary Funds had an increase in net position of \$31.1 million. Other factors concerning the finances of Airports, Harbors, the Unemployment Compensation Fund, and the Nonmajor Proprietary Funds have already been addressed in the discussion of the State's business-type activities.

##### ***General Fund Budgetary Highlights***

The General Fund revenues were \$34.9 million, or 0.6%, less than the final budget. The decrease was attributed to lower tax revenues of \$92.3 million, which was comprised of decreases in corporate and individual net income tax of \$34.3 million and general excise tax of \$91.2 million, offset by higher franchise tax of \$13.7 million and transient accommodations tax of \$15.6 million.

The difference between the final budget and actual expenditures on a budgetary basis was \$132.9 million. The large positive variance in general government of \$65.0 million was mostly due to \$20.9 million savings in retirement and \$15.7 million in collective bargaining payments.

# State of Hawaii

## Management's Discussion and Analysis (Unaudited)

### June 30, 2014

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Also contributing to the positive variance in general government was \$17.3 million in appropriations made to the State Legislature that was carried over to the next fiscal year. As in previous fiscal years, the positive variance in lower education resulted when the Department of Education carried over \$37.2 million of unencumbered appropriations into the next fiscal year. The Department of Education is allowed by statute to carry up to 5% of its unencumbered appropriations.

#### ***Capital Asset and Debt Administration***

The State's capital assets for its governmental and business-type activities as of June 30, 2014, amounted to \$11.7 billion (net of accumulated depreciation of \$10.3 billion), an increase of \$188.3 million from fiscal 2013. The increase is due to an increase in governmental activities assets of \$466.5 million and in business-type assets of \$245.9 million offset by increases in primary governmental activities and business-type activities accumulated depreciation of \$416.9 million and \$107.2 million, respectively. Major capital improvement projects, which received funding in the fiscal year ended June 30, 2014, included the following:

- \$238.7 million for various capital improvement projects and repairs and maintenance of public school facilities throughout the State.
- \$120.3 million for various capital improvement projects at the Honolulu International Airport.
- \$60.0 million for construction of a new access road, land acquisition, and various construction projects at Kahului airport.
- \$80.0 million for improvements to rental car facilities, statewide.
- \$250.0 million for Kapalama Military Reservation improvements at Honolulu Harbor.
- \$201.6 million for various construction, maintenance and renovation projects at various University of Hawaii campuses.
- \$41.5 million for various health and safety renovation projects at state community hospitals.
- \$45.0 million for renovations and improvements to federal and state low income housing projects.
- \$187.5 million for the acquisition of agricultural lands on Oahu.
- \$36.0 million for the design and construction to add a third lane on Fort Weaver Road from the cross section of Geiger Road to Keoneula Parkway in both directions.
- \$46.0 million for the planning, design, development and hardware for the modernization of the enterprise resource project and tax system.

Additional information on the State's capital assets can be found in note 3 to the basic financial statements.



**State of Hawaii**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2014**

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**Debt Administration**

At the end of the current fiscal year, the State had total bonded debt outstanding of \$7.4 billion. Of this amount, \$5.8 billion comprises debt backed by the full faith and credit of the State and \$1.6 billion (i.e., revenue bonds), is revenue bonded debt that is payable from and secured solely by the specified revenue sources. A breakdown of the State's total bonded debt is shown below:

**Long-Term Debt**  
**June 30, 2014 and 2013**  
**(Amounts in thousands)**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
General obligation bonds	\$ 5,784,139	\$ 5,534,921	\$ 31,176	\$ 32,934	\$ 5,815,315	\$ 5,567,855
Revenue bonds	412,725	441,150	1,278,137	1,326,112	1,690,862	1,767,262
Total	<u>\$ 6,196,864</u>	<u>\$ 5,976,071</u>	<u>\$ 1,309,313</u>	<u>\$ 1,359,046</u>	<u>\$ 7,506,177</u>	<u>\$ 7,335,117</u>

The State's total long-term debt increased by \$171.1 million, or 2.3%, during the current fiscal year. The increase resulted from declining principal balances in revenue bonds of the State's business-type activities, and partially offset by issuances of GO bonds (see notes 4 and 5 to the basic financial statements).

As of June 30, 2014, the State's underlying general obligation bond ratings were Moody's Investors Service (Aa2), Standard and Poor's Corporation (AA) and Fitch Ratings (AA) based on the credit of the State.

The State Constitution limits the amount of general obligation bonds that may be issued. As required by law, the Director of Finance has confirmed that the State was within its legal debt limit. The legal debt margin at June 30, 2014 was \$414.1 million.

Additional information on the State's long-term debt can be found in notes 4, 5 and 6 to the basic financial statements.

**Other Post-Employment Benefits (OPEB)**

The State implemented provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for fiscal year ended June 30, 2008.

The latest actuarial valuation studies were completed as of July 1, 2013 for the Employer-Union Health Benefits Trust Fund (EUTF) and the University of Hawaii. These studies determined the State's combined unfunded actuarial accrued liability to be approximately \$8.5 billion. The State's combined annual OPEB cost for fiscal 2014 was \$757.6 million and its OPEB contributions were \$380.2 million, resulting in an increase in the net OPEB obligation of \$377.4 million. The total net OPEB obligation balance at fiscal year-end increased to \$4.3 billion.

In July 2013, Act 268 was signed into law, which established the Hawaii EUTF Trust Fund Task Force to examine further steps to address the unfunded liability. The law also requires the State beginning in fiscal 2015 to pay additional amounts towards reducing the unfunded liability until fiscal 2019 when 100% of the annual required contribution must be paid. Commencing fiscal year 2019, general excise tax revenues will be used to fund any difference between the annual required contribution and the payment made by the State. In June 2014, the state made the first additional payment in the amount of \$100 million.

# **State of Hawaii**

## **Management's Discussion and Analysis (Unaudited)**

### **June 30, 2014**

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#### **Economic Factors and Next Year's Budget**

The statewide seasonally adjusted unemployment rate for November 2014 was 4.0% while the seasonally adjusted national unemployment rate was 5.8%. One year ago, the State's seasonally adjusted unemployment rate stood at 4.4% while the seasonally adjusted national unemployment rate was 7.0%.

The Council of Revenues in September 2014 revised the State's General Fund tax revenue growth rate for fiscal year 2015 from 5.5% to 3.5% and also adjusted the revenue growth rate for fiscal year 2016 to 5.5%.

Cumulative general fund tax revenues for the first five months of fiscal 2015 was \$2.3 billion, an increase of \$152.5 million from the same period last fiscal year. General excise and use tax collections, which are the largest source of revenue and a good measure of economic growth, increased 8.7%.

The State is optimistic about the recovery of Hawaii's economy but remains cautious about its sustainability in the face of numerous uncertainties. Therefore, the Governor has imposed a 10% spending restriction on discretionary operating expenses of general funds for all departments and agencies of the Executive Branch for fiscal year 2015.

#### **Requests for Information**

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Comptroller, Department of Accounting and General Services, P.O. Box 119, Honolulu, Hawaii 96810-0119. General information about the State can be found at the State's website: <http://www.hawaii.gov>.

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## **BASIC FINANCIAL STATEMENTS**

**State of Hawaii**  
**Statement of Net Position**  
**June 30, 2014**  
(Amounts in thousands)

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	
<b>Assets</b>				
Cash and cash equivalents	\$ 334,060	\$ 1,322,711	\$ 1,656,771	\$ 428,088
Receivables				
Taxes	463,187	68,975	532,162	-
Accounts and accrued interest, net	-	27,512	27,512	197,742
Notes, loans, mortgages and contributions, net	74,251	414,402	488,653	605,476
Federal government	87,834	10,058	97,892	1,227
Premiums	-	49,248	49,248	-
Drug rebate	38,998	-	38,998	-
Other, net	60,627	7,664	68,291	24,365
Total receivables	724,897	577,859	1,302,756	828,810
Internal balances	1,617	(1,617)	-	-
Due from component units	289,734	-	289,734	-
Due from primary government	-	-	-	570,433
Investments	2,147,454	6,792	2,154,246	934,581
Inventories				
Developments in progress and dwelling units	-	-	-	11,359
Materials and supplies	-	257	257	31,551
Total inventories	-	257	257	42,910
Restricted assets	-	1,046,095	1,046,095	197,710
Other assets				
Prepaid expenses	5,473	6,275	11,748	15,483
Other	19,474	20,402	39,876	19,075
Total other assets	24,947	26,677	51,624	34,558
Capital assets				
Land and land improvements	2,236,891	1,860,143	4,097,034	506,618
Infrastructure	9,153,284	-	9,153,284	214,746
Construction in progress	927,901	564,863	1,492,764	303,459
Buildings, improvements and equipment	4,678,659	2,476,349	7,155,008	4,398,068
Intangible assets – software	83,289	-	83,289	-
Accumulated depreciation and amortization	(8,101,094)	(2,229,580)	(10,330,674)	(2,223,467)
Total capital assets, net	8,978,930	2,671,775	11,650,705	3,199,424
Total assets	12,501,639	5,650,549	18,152,188	6,236,514
<b>Deferred outflows of resources</b>				
Deferred loss on refunding	96,843	9,334	106,177	6,164
Total deferred outflows of resources	\$ 96,843	\$ 9,334	\$ 106,177	\$ 6,164

The accompanying notes are an integral part of the basic financial statements.

**State of Hawaii**  
**Statement of Net Position**  
**June 30, 2014**  
**(Amounts in thousands)**

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>Liabilities</b>				
Vouchers and contracts payable	\$ 286,968	\$ 36,758	\$ 323,726	\$ 187,504
Other accrued liabilities	329,730	99,028	428,758	94,399
Due to component units	570,433	-	570,433	-
Due to primary government	-	-	-	289,734
Due to federal government	16,854	-	16,854	-
Unearned revenue	-	7,843	7,843	45,128
Unamortized bond premium	508,123	-	508,123	-
Premiums payable	-	40,089	40,089	-
Other	80,465	-	80,465	20,249
Long-term liabilities				
Due within one year				
Payable from restricted assts – revenue bonds payable, net	-	49,074	49,074	-
Prepaid airport use charge fund	-	1,092	1,092	-
General obligation (GO) bonds payable	412,126	1,844	413,970	-
Notes, mortgages and installment contracts payable	-	-	-	14,325
Accrued vacation and retirement benefits payable	79,405	4,120	83,525	45,689
Revenue bonds payable, net	29,945	-	29,945	21,371
Reserve for losses and loss adjustment costs	23,880	1,040	24,920	8,757
Capital lease obligations	6,447	-	6,447	9,324
Due more than one year				
Prepaid airport use charge fund	-	27,092	27,092	-
GO bonds payable	5,372,013	29,332	5,401,345	-
Notes, mortgages and installment contracts payable	-	-	-	54,640
Accrued vacation and retirement benefits payable	147,393	8,984	156,377	70,354
Revenue bonds payable, net	382,780	1,229,063	1,611,843	910,331
Reserve for losses and loss adjustment costs	123,240	3,789	127,029	19,242
Capital lease obligations	96,175	-	96,175	21,169
Lease revenue certificates of participation	-	173,771	173,771	-
Premium on bonds payable	-	-	-	3,802
Unearned revenue	-	-	-	22,100
Estimated future costs of land sold	-	-	-	35,272
Other postemployment benefit liability	3,327,313	81,530	3,408,843	903,825
Other	359	-	359	51,617
Total liabilities	<u>11,793,649</u>	<u>1,794,449</u>	<u>13,588,098</u>	<u>2,828,832</u>
<b>Net position</b>				
Net investment in capital assets	2,772,220	1,653,902	4,426,122	2,318,239
Restricted for				
Capital maintenance projects	71,157	-	71,157	-
Health and welfare	154,817	-	154,817	-
Natural resources	128,605	-	128,605	-
Native Hawaiian programs	298,439	-	298,439	-
Education	154,448	-	154,448	-
Regulatory and economic development	113,130	-	113,130	-
Administrative support	171,560	-	171,560	-
Other purposes	36,487	-	36,487	-
Bond requirements and other	35	1,160,551	1,160,586	994,048
Unrestricted	<u>(3,096,065)</u>	<u>1,050,981</u>	<u>(2,045,084)</u>	<u>101,559</u>
Total net position	<u>\$ 804,833</u>	<u>\$ 3,865,434</u>	<u>\$ 4,670,267</u>	<u>\$ 3,413,846</u>

**State of Hawaii**  
**Statement of Activities**  
**Year Ended June 30, 2014**  
**(Amounts in thousands)**

Functions/Programs	Program Revenues				Net Revenue (Expense) and Changes in Net Position			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-Type Activities		
<b>Primary government</b>								
<b>Governmental activities</b>								
General government	\$ 567,941	\$ 223,066	\$ 31,796	\$ -	\$ (313,079)	\$ -	\$ (313,079)	
Public safety	533,727	50,056	60,535	-	(423,136)	-	(423,136)	
Highways	554,039	8,064	93,732	97,290	(354,953)	-	(354,953)	
Conservation of natural resources	101,587	58,767	28,408	-	(14,412)	-	(14,412)	
Health	849,493	130,338	125,255	-	(593,900)	-	(593,900)	
Welfare	2,879,813	64,341	1,938,536	-	(876,936)	-	(876,936)	
Lower education	2,685,037	48,619	295,033	-	(2,341,385)	-	(2,341,385)	
Higher education	693,292	-	-	-	(693,292)	-	(693,292)	
Other education	21,766	-	-	-	(21,766)	-	(21,766)	
Culture and recreation	104,303	8,790	8,502	-	(87,011)	-	(87,011)	
Urban redevelopment and housing	137,160	24,313	16,791	-	(96,056)	-	(96,056)	
Economic development and assistance	166,455	24,987	62,182	-	(79,286)	-	(79,286)	
Interest expense	239,760	-	-	-	(239,760)	-	(239,760)	
Total governmental activities	9,534,373	641,341	2,660,770	97,290	(6,134,972)	-	(6,134,972)	
<b>Business-type activities</b>								
Airports	346,699	404,442	-	64,303	-	122,046	122,046	
Harbors	89,327	121,038	-	-	-	31,711	31,711	
Unemployment compensation	244,947	353,546	-	-	-	108,599	108,599	
Nonmajor proprietary funds	87,031	82,941	-	34,325	-	30,235	30,235	
Total business-type activities	768,004	961,967	-	98,628	-	292,591	292,591	
Total primary government	\$ 10,302,377	\$ 1,603,308	\$ 2,660,770	\$ 195,918	(6,134,972)	292,591	(5,842,381)	
<b>Component units</b>								
University of Hawaii	\$ 1,659,856	\$ 382,191	\$ 494,321	\$ -				\$ (783,344)
Hawaii Housing Finance and Development Corporation	51,778	58,683	10,015	-				16,920
Hawaii Public Housing Authority	139,574	19,316	73,020	13,868				(33,370)
Hawaii Health Systems Corporation	737,090	576,460	2,638	46,716				(111,276)
Hawaii Tourism Authority	102,292	8,205	-	-				(94,087)
Hawaii Community Development Authority	9,412	15,910	-	-				6,498
Hawaii Hurricane Relief Fund	5	-	-	-				(5)
Total component units	\$ 2,700,007	\$ 1,060,765	\$ 579,994	\$ 60,584				(998,664)
<b>General revenues</b>								
<b>Taxes</b>								
General excise tax					2,816,346	-	2,816,346	-
Net income tax – corporations and individuals					1,840,890	-	1,840,890	-
Public service companies tax					166,179	-	166,179	-
Transient accommodations tax					188,721	-	188,721	115,000
Tobacco and liquor tax					155,990	-	155,990	-
Liquid fuel tax					88,707	-	88,707	-
Tax on premiums of insurance companies					139,074	-	139,074	-
Vehicle weight and registration tax					124,686	-	124,686	-
Rental motor/tour vehicle surcharge tax					42,853	-	42,853	-
Franchise tax					38,983	-	38,983	-
Other tax					96,131	-	96,131	-
Interest and investment income					13,163	12,805	25,968	53,554
Payments from the State, net					-	-	-	992,793
Gifts and subsidies					-	-	-	75,605
Other					-	-	-	(6,470)
Total general revenues					5,711,723	12,805	5,724,528	1,230,482
Change in net position					(423,249)	305,396	(117,853)	231,818
<b>Net position</b>								
Beginning of year, as restated					1,228,082	3,560,038	4,788,120	3,182,028
End of year					\$ 804,833	\$ 3,865,434	\$ 4,670,267	\$ 3,413,846

The accompanying notes are an integral part of the basic financial statements.

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**State of Hawaii**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2014**  
**(Amounts in thousands)**

	<b>General Fund</b>	<b>Capital Projects Fund</b>	<b>Med-Quest Special Revenue Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>					
Cash and cash equivalents	\$ 114,395	\$ 17,173	\$ 2,980	\$ 199,512	\$ 334,060
Receivables					
Taxes	463,187	-	-	-	463,187
Notes and loans, net of allowance for doubtful accounts of \$43,212	1,470	-	-	72,781	74,251
Federal government	-	-	87,834	-	87,834
Drug rebate	-	-	38,998	-	38,998
Medical assistance	-	-	25,000	-	25,000
Other	8,125	-	-	-	8,125
Due from other funds	213,063	-	-	2,035	215,098
Due from proprietary funds	20	1,597	-	-	1,617
Due from component units	21,800	-	-	-	21,800
Investments	842,394	172,323	21,856	1,110,881	2,147,454
Other assets	18,758	-	-	-	18,758
<b>Total assets</b>	<b>\$ 1,683,212</b>	<b>\$ 191,093</b>	<b>\$ 176,668</b>	<b>\$ 1,385,209</b>	<b>\$ 3,436,182</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Vouchers and contracts payable	\$ 101,042	\$ 86,319	\$ 7,058	\$ 92,550	\$ 286,969
Other accrued liabilities	231,422	-	63,625	36,815	331,862
Due to federal government	-	-	-	16,854	16,854
Due to other funds	35	91,900	95,519	27,644	215,098
Due to component units	1,514	558,376	-	-	559,890
Unearned revenue	13,536	-	-	-	13,536
Payable from restricted assets					
Matured bonds and interest payable	-	-	-	359	359
<b>Total liabilities</b>	<b>347,549</b>	<b>736,595</b>	<b>166,202</b>	<b>174,222</b>	<b>1,424,568</b>
<b>Fund balances</b>					
Restricted	-	-	-	27,145	27,145
Committed	-	-	-	497,932	497,932
Assigned	256,483	-	10,466	728,813	995,762
Unassigned	1,079,180	(545,502)	-	(42,903)	490,775
<b>Total fund balances</b>	<b>1,335,663</b>	<b>(545,502)</b>	<b>10,466</b>	<b>1,210,987</b>	<b>2,011,614</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,683,212</b>	<b>\$ 191,093</b>	<b>\$ 176,668</b>	<b>\$ 1,385,209</b>	<b>\$ 3,436,182</b>

The accompanying notes are an integral part of the basic financial statements.

**State of Hawaii**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Position**  
**June 30, 2014**  
**(Amounts in thousands)**

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Total fund balance – Governmental funds	<u>\$ 2,011,614</u>
Amounts reported for governmental activities in the statement of net position are different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of	
Land and land improvements	2,236,891
Infrastructure	9,153,284
Construction in progress	927,901
Buildings, improvements and equipment	4,678,659
Intangible assets – software	83,289
Accumulated depreciation and amortization	<u>(8,101,094)</u>
	<u>8,978,930</u>
Accrued interest and other payables are not recognized in governmental funds	<u>(588,587)</u>
Other assets are not available to pay for current-period expenditures and are not recognized in governmental funds, such as unearned revenue and settlement receivables	<u>414,136</u>
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of	
General obligation bonds payable	(5,784,139)
Accrued vacation payable	(226,798)
Revenue bonds payable	(412,725)
Reserve for losses and loss adjustment costs	(147,120)
Other postemployment benefit liability	(3,327,313)
Long-term transactions with component units	(10,543)
Capital lease obligations	<u>(102,622)</u>
	<u>(10,011,260)</u>
Net position of governmental activities	<u>\$ 804,833</u>

The accompanying notes are an integral part of the basic financial statements.

**State of Hawaii**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Year Ended June 30, 2014**  
**(Amounts in thousands)**

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes					
General excise tax	\$ 2,816,346	\$ -	\$ -	\$ -	\$ 2,816,346
Net income tax – corporations and individuals	1,840,963	-	-	-	1,840,963
Public service companies tax	166,179	-	-	-	166,179
Transient accommodations tax	188,721	-	-	-	188,721
Tobacco and liquor tax	125,964	-	-	30,026	155,990
Liquid fuel tax	-	-	-	88,707	88,707
Tax on premiums of insurance companies	137,179	-	-	1,895	139,074
Vehicle weight and registration tax	-	-	-	124,686	124,686
Rental motor/vehicle surcharge tax	1	-	-	42,852	42,853
Franchise tax	36,983	-	-	2,000	38,983
Other	59,737	-	-	36,394	96,131
Total taxes	5,372,073	-	-	326,560	5,698,633
Interest and investment income	5,012	-	17	8,134	13,163
Charges for current services	130,601	-	-	233,190	363,791
Intergovernmental	12,924	-	1,183,874	1,454,078	2,650,876
Rentals	26	-	-	31,820	31,846
Fines, forfeitures and penalties	22,624	-	-	10,463	33,087
Licenses and fees	6,443	-	-	40,766	47,209
Revenues from private sources	3,257	-	43,527	66,132	112,916
Other	66,185	-	36,269	71,029	173,483
Total revenues	5,619,145	-	1,263,687	2,242,172	9,125,004
<b>Expenditures</b>					
Current					
General government	425,549	59,460	-	58,120	543,129
Public safety	377,408	18,494	-	124,052	519,954
Highways	-	118,899	-	284,660	403,559
Conservation of natural resources	34,132	13,783	-	60,788	108,703
Health	559,981	59,636	-	208,471	828,088
Welfare	992,675	8,071	1,253,776	690,848	2,945,370
Lower education	1,958,940	201,129	-	443,705	2,603,774
Higher education	563,764	129,528	-	-	693,292
Other education	6,559	-	-	15,207	21,766
Culture and recreation	43,567	23,253	-	41,026	107,846
Urban redevelopment and housing	10,005	2,328	-	52,895	65,228
Economic development and assistance	32,992	40,690	-	84,697	158,379
Housing	19,687	43,996	-	-	63,683
Other	22,326	-	-	7,492	29,818
Debt service	-	-	-	737,298	737,298
Total expenditures	5,047,585	719,267	1,253,776	2,809,259	9,829,887
Excess (deficiency) of revenues over (under) expenditures	571,560	(719,267)	9,911	(567,087)	(704,883)
<b>Other financing sources (uses)</b>					
Issuance of GO and refunding GO bonds – par	-	689,795	-	171,060	860,855
Issuance of GO and refunding GO bonds – premium	72,835	-	-	14,500	87,335
Other financing sources – other	18,835	-	-	-	18,835
Payment to refunded bond escrow agent	-	-	-	(185,560)	(185,560)
Transfers in	65,648	80,046	12,372	908,714	1,066,780
Transfers out	(818,488)	(32,560)	(12,697)	(203,035)	(1,066,780)
Total other financing sources (uses)	(661,170)	737,281	(325)	705,679	781,465
Net change in fund balances	(89,610)	18,014	9,586	138,592	76,582
<b>Fund balances</b>					
Beginning of year	1,425,273	(563,516)	880	1,072,395	1,935,032
End of year	\$ 1,335,663	\$ (545,502)	\$ 10,466	\$ 1,210,987	\$ 2,011,614

The accompanying notes are an integral part of the basic financial statements.

**State of Hawaii**  
**Reconciliation of the Governmental Funds Statement of Revenues,**  
**Expenditures and Changes in Fund Balances to the Statement of Activities**  
**Year Ended June 30, 2014**  
**(Amounts in thousands)**

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Total net change in fund balances – Governmental funds	\$ 76,582
Amounts reported for governmental activities in the statement of activities are different because	
Capital outlays are reported as expenditures in governmental funds; however, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are	
Capital outlay, net of disposals	485,065
Depreciation expense	(435,464)
Excess of capital outlay over depreciation expense	49,601
Debt proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net position. In the current period, this is the amount of proceeds received from general obligation bonds issued.	(948,190)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position. In the current year, these amounts consist of	
Bond principal retirement	640,062
Capital lease additions, net	(12,743)
Total long-term debt repayment	627,319
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	
Change in postemployment liability	(260,861)
Change in accrued vacation payable	(6,025)
Change in reserve for losses and loss adjustment costs	8,018
Change in accrued interest on bonds payable	(10,911)
Amortization of bond premium and deferred amount on refunding	41,218
Total	(228,561)
Change in net position of governmental activities	\$ (423,249)

The accompanying notes are an integral part of the basic financial statements.

**State of Hawaii**  
**Proprietary Funds**  
**Statement of Fund Net Position**  
**June 30, 2014**  
**(Amounts in thousands)**

	<u>Airports</u>	<u>Harbors</u>	<u>Unemployment Compensation</u>	<u>Nonmajor Proprietary Funds</u>	<u>Total Proprietary Funds</u>
<b>Assets</b>					
Current assets					
Cash and cash equivalents	\$ 569,949	\$ 165,399	\$ 359,047	\$ 228,316	\$ 1,322,711
Investments	-	-	-	6,792	6,792
Restricted assets – cash and short-term investments	61,768	33,895	-	-	95,663
Receivables					
Taxes	394	-	68,581	-	68,975
Accounts and accrued interest, net of allowance for doubtful accounts of \$4,441	17,226	9,545	-	741	27,512
Promissory note receivable, net of allowance for doubtful accounts of \$3,827	11	-	-	31,347	31,358
Federal government	9,955	-	-	103	10,058
Premiums	-	-	-	49,248	49,248
Other	1,396	426	-	5,842	7,664
Materials and supplies inventory	194	63	-	-	257
Prepaid expenses and other assets	-	874	-	5,401	6,275
Total current assets	<u>660,893</u>	<u>210,202</u>	<u>427,628</u>	<u>327,790</u>	<u>1,626,513</u>
Noncurrent assets					
Capital assets					
Land and land improvements	1,326,249	533,894	-	-	1,860,143
Construction in progress	505,641	59,222	-	-	564,863
Buildings and improvements	1,724,319	440,358	-	-	2,164,677
Equipment	282,146	18,130	-	11,396	311,672
	3,838,355	1,051,604	-	11,396	4,901,355
Less: Accumulated depreciation	<u>(1,915,911)</u>	<u>(305,967)</u>	<u>-</u>	<u>(7,702)</u>	<u>(2,229,580)</u>
Net capital assets	1,922,444	745,637	-	3,694	2,671,775
Promissory note receivable	-	-	-	383,044	383,044
Restricted assets – net direct financing leases	29,326	-	-	-	29,326
Restricted assets – cash and cash equivalents	461,914	212,232	-	-	674,146
Restricted assets – investments	246,960	-	-	-	246,960
Other	7,776	138	-	12,488	20,402
Total noncurrent assets	<u>2,668,420</u>	<u>958,007</u>	<u>-</u>	<u>399,226</u>	<u>4,025,653</u>
Total assets	<u>3,329,313</u>	<u>1,168,209</u>	<u>427,628</u>	<u>727,016</u>	<u>5,652,166</u>
<b>Deferred outflows of resources</b>					
Deferred loss on refunding	5,023	4,311	-	-	9,334
Total deferred outflows of resources	<u>\$ 5,023</u>	<u>\$ 4,311</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,334</u>

The accompanying notes are an integral part of the basic financial statements.

**State of Hawaii**  
**Proprietary Funds**  
**Statement of Fund Net Position**  
**June 30, 2014**  
**(Amounts in thousands)**

	<u>Airports</u>	<u>Harbors</u>	<u>Unemployment Compensation</u>	<u>Nonmajor Proprietary Funds</u>	<u>Total Proprietary Funds</u>
<b>Liabilities</b>					
Current liabilities					
Vouchers and contracts payable	\$ 28,072	\$ 6,562	\$ 1,359	\$ 765	\$ 36,758
Payable from restricted assets – contracts payable, accrued interest and other	61,824	21,791	-	-	83,615
Other accrued liabilities	8,986	-	-	2,478	11,464
Due to primary government	-	1,617	-	-	1,617
Benefit claims payable	-	-	-	3,949	3,949
Prepaid airport use charge fund	1,092	-	-	-	1,092
Unearned revenue	7,843	-	-	-	7,843
General obligation bonds payable, current portion	-	1,844	-	-	1,844
Reserve for losses and loss adjustment costs	961	79	-	-	1,040
Accrued vacation, current portion	3,244	672	-	204	4,120
Payable from restricted assets – revenue bond payable	35,240	13,834	-	-	49,074
Premiums payable	-	-	-	40,089	40,089
Total current liabilities	<u>147,262</u>	<u>46,399</u>	<u>1,359</u>	<u>47,485</u>	<u>242,505</u>
Noncurrent liabilities					
General obligation bonds payable	-	29,332	-	-	29,332
Accrued vacation	6,875	1,619	-	490	8,984
Revenue bonds payable, net of unamortized bond premium and bond discount	890,848	338,215	-	-	1,229,063
Reserve for losses and loss adjustment cost	3,301	488	-	-	3,789
Lease revenue certificates of participation	173,771	-	-	-	173,771
Other postemployment benefit liability	64,588	13,176	-	3,766	81,530
Prepaid airport use charge fund	27,092	-	-	-	27,092
Total long-term liabilities	<u>1,166,475</u>	<u>382,830</u>	<u>-</u>	<u>4,256</u>	<u>1,553,561</u>
Total liabilities	<u>1,313,737</u>	<u>429,229</u>	<u>1,359</u>	<u>51,741</u>	<u>1,796,066</u>
<b>Net position</b>					
Net investment in capital assets	1,139,337	510,870	-	3,695	1,653,902
Restricted for bond requirements and other	448,211	88,454	-	623,886	1,160,551
Unrestricted	<u>433,051</u>	<u>143,967</u>	<u>426,269</u>	<u>47,694</u>	<u>1,050,981</u>
Net position	<u>\$ 2,020,599</u>	<u>\$ 743,291</u>	<u>\$ 426,269</u>	<u>\$ 675,275</u>	<u>\$ 3,865,434</u>

**State of Hawaii**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Year Ended June 30, 2014**  
**(Amounts in thousands)**

	<b>Airports</b>	<b>Harbors</b>	<b>Unemployment Compensation</b>	<b>Nonmajor Proprietary Funds</b>	<b>Total Proprietary Funds</b>
<b>Operating revenues</b>					
Concession fees	\$ 143,570	\$ -	\$ -	\$ -	\$ 143,570
Unemployment compensation	-	-	353,546	-	353,546
Aviation fuel tax	4,847	-	-	-	4,847
Airport use charges	52,930	-	-	-	52,930
Rentals	108,363	26,720	-	-	135,083
Services and others	-	92,356	-	-	92,356
Administrative fees	-	-	-	7,944	7,944
Premium revenue – self insurance	-	-	-	57,562	57,562
Increase in premium reserves	-	-	-	14,516	14,516
Other	7,414	2,262	-	2,920	12,596
Total operating revenues	317,124	121,338	353,546	82,942	874,950
<b>Operating expenses</b>					
Personnel services	133,369	16,775	-	5,737	155,881
Depreciation and amortization	87,233	23,633	-	1,449	112,315
Repairs and maintenance	40,033	1,920	-	93	42,046
Airports operations	54,310	-	-	-	54,310
Harbors operations	-	18,561	-	-	18,561
Fireboat operations	-	1,672	-	-	1,672
General administration	18,816	8,632	-	4,360	31,808
Unemployment compensation	-	-	244,947	-	244,947
Claims	-	-	-	69,067	69,067
Other	354	-	-	6,326	6,680
Total operating expenses	334,115	71,193	244,947	87,032	737,287
Operating income (loss)	(16,991)	50,145	108,599	(4,090)	137,663
<b>Nonoperating revenues (expenses)</b>					
Interest and investment income	3,867	673	7,406	859	12,805
Interest expense	(30,043)	(18,248)	-	-	(48,291)
Federal grants	2,656	-	-	-	2,656
Gain (loss) on disposal of capital assets	(1,542)	368	-	-	(1,174)
Rental car customer and passenger facility charges	88,862	-	-	-	88,862
Debt service support charges	19,000	-	-	-	19,000
Other	(1,542)	(555)	-	-	(2,097)
Total nonoperating revenues (expenses)	81,258	(17,762)	7,406	859	71,761
Income (loss) before capital contributions	64,267	32,383	116,005	(3,231)	209,424
Capital contributions	61,647	-	-	34,325	95,972
Change in net position	125,914	32,383	116,005	31,094	305,396
<b>Net position</b>					
Beginning of year, as restated	1,894,685	710,908	310,264	644,181	3,560,038
End of year	\$ 2,020,599	\$ 743,291	\$ 426,269	\$ 675,275	\$ 3,865,434

The accompanying notes are an integral part of the basic financial statements.

**State of Hawaii**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**Year Ended June 30, 2014**  
**(Amounts in thousands)**

	<b>Airports</b>	<b>Harbors</b>	<b>Unemployment Compensation</b>	<b>Nonmajor Proprietary Funds</b>	<b>Total Proprietary Funds</b>
<b>Cash flows from operating activities</b>					
Cash received from customers	\$ 325,370	\$ 120,263	\$ -	\$ -	\$ 445,633
Cash received from taxes	-	-	367,381	-	367,381
Cash received from employees for premiums and benefits	-	-	-	552,132	552,132
Cash paid to suppliers	(164,633)	(33,545)	-	(4,454)	(202,632)
Cash paid to employees	(71,235)	(14,641)	-	(4,938)	(90,814)
Cash paid for unemployment compensation	-	-	(243,860)	-	(243,860)
Cash paid for premiums and benefits payable	-	-	-	(523,380)	(523,380)
Reserves returned by insurance carriers	-	-	-	53	53
Interest income from notes receivable	-	-	-	2,357	2,357
Administrative loan fees	-	-	-	3,261	3,261
Principal repayments on notes receivable	-	-	-	32,122	32,122
Disbursement of note receivable proceeds	-	-	-	(83,641)	(83,641)
Other cash receipts	-	-	34,412	-	34,412
Net cash provided by (used in) operating activities	<u>89,502</u>	<u>72,077</u>	<u>157,933</u>	<u>(26,488)</u>	<u>293,024</u>
<b>Cash flows from noncapital financing activities</b>					
State capital contributions	-	-	-	4,025	4,025
Proceeds from federal operating grants	3,033	-	-	30,556	33,589
Disbursements of federal operating grants	-	-	-	(296)	(296)
Other	-	(300)	-	-	(300)
Net cash provided by (used in) noncapital financing activities	<u>3,033</u>	<u>(300)</u>	<u>-</u>	<u>34,285</u>	<u>37,018</u>
<b>Cash flows from capital and related financing activities</b>					
Acquisition and construction of capital assets	(171,219)	(21,823)	-	-	(193,042)
Repayment of general obligation and revenue bonds principal	(40,305)	(38,223)	-	-	(78,528)
Interest paid on bonds	(43,811)	(20,348)	-	-	(64,159)
Proceeds from issuance of bonds	-	23,361	-	-	23,361
Proceeds from passenger facility charges program	55,301	-	-	-	55,301
Proceeds from rental car customer facility charges program	34,750	-	-	-	34,750
Payments for rental car customer facility charges program	(5,672)	-	-	-	(5,672)
Payments for passenger facility charges program	(7,387)	-	-	-	(7,387)
Net proceeds from lease revenue certificates of participation	172,977	-	-	-	172,977
Proceeds from federal, state, and capital grants and contributions	60,079	936	-	-	61,015
Net cash provided by (used in) capital and related financing activities	<u>54,713</u>	<u>(56,097)</u>	<u>-</u>	<u>-</u>	<u>(1,384)</u>
<b>Cash flows from investing activities</b>					
Purchase of investments	(385,927)	-	-	(6,792)	(392,719)
Proceeds from sales and maturities of investments	235,860	-	-	-	235,860
Interest from and change in fair value of investments	2,018	750	7,407	874	11,049
Net cash provided by (used in) investing activities	<u>(148,049)</u>	<u>750</u>	<u>7,407</u>	<u>(5,918)</u>	<u>(145,810)</u>
Net increase (decrease) in cash and cash equivalents	<u>(801)</u>	<u>16,430</u>	<u>165,340</u>	<u>1,879</u>	<u>182,848</u>
<b>Cash and short-term investments, including restricted amounts</b>					
Beginning of year	<u>1,094,432</u>	<u>395,096</u>	<u>193,707</u>	<u>226,437</u>	<u>1,909,672</u>
End of year	<u>\$ 1,093,631</u>	<u>\$ 411,526</u>	<u>\$ 359,047</u>	<u>\$ 228,316</u>	<u>\$ 2,092,520</u>

(continued)

The accompanying notes are an integral part of the basic financial statements.



**State of Hawaii**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**Year Ended June 30, 2014**  
**(Amounts in thousands)**

	<u>Airports</u>	<u>Harbors</u>	<u>Unemployment Compensation</u>	<u>Nonmajor Proprietary Funds</u>	<u>Total Proprietary Funds</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>					
Operating income (loss)	\$ (16,991)	\$ 50,145	\$ 108,599	\$ (4,090)	\$ 137,663
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities					
Provision for uncollectible accounts	-	190	-	-	190
Depreciation	87,233	23,633	-	1,449	112,315
Bad debt recovery	(722)	-	-	-	(722)
Overpayment of airport use charge to be transferred to the prepaid airport use charge fund	6,386	-	-	-	6,386
Premium reserves held by insurance companies	-	-	-	23,152	23,152
Principal forgiveness of loans	-	-	-	4,075	4,075
Changes in assets and liabilities					
Receivables	90	(508)	48,248	(58,113)	(10,283)
Inventory of materials and supplies	(28)	(1)	-	-	(29)
Prepaid expenses	-	(31)	-	(46)	(77)
Vouchers and contracts payable	(671)	(2,635)	1,086	156	(2,064)
Other postemployment benefit liability	10,244	2,186	-	676	13,106
Other accrued liabilities	2,789	(902)	-	4,969	6,856
Unearned revenue	1,172	-	-	-	1,172
Benefit claims payable	-	-	-	1,284	1,284
Net cash provided by (used in) operating activities	<u>\$ 89,502</u>	<u>\$ 72,077</u>	<u>\$ 157,933</u>	<u>\$ (26,488)</u>	<u>\$ 293,024</u>
<b>Supplemental information</b>					
Noncash investing, capital, and financing activities					
Amortization of bond discount, bond premium and loss on refunding	\$ (3,255)	\$ (72)	\$ -	\$ -	\$ (3,327)
Interest payments relating to special facility revenue bonds	1,808	-	-	-	1,808
Principal payments on special facility revenue bonds	970	-	-	-	970
Amortization of certificates of participation premium	(878)	-	-	-	(878)
Amounts included in contracts payable for the acquisition of capital assets	40,224	-	-	-	40,224
Interest capitalized in capital assets	15,458	-	-	-	15,458
Net book value of capital asset write-offs	1,663	-	-	-	1,663
Decrease in airports use charge fund for transfer to Airports to offset signatory airline requirement	19,000	-	-	-	19,000

(concluded)

The accompanying notes are an integral part of the basic financial statements.

**State of Hawaii**  
**Fiduciary Funds**  
**Statement of Fiduciary Net Position**  
**June 30, 2014**  
(Amounts in thousands)

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	<b>Agency Funds</b>	<b>OPEB Trust Fund</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 239,103	\$ 246,225
Receivables – taxes	41,694	-
Investments	429,781	379,860
Other assets, primarily due from individuals, businesses and counties	92,267	-
Total	<u>802,845</u>	<u>626,085</u>
<b>Liabilities and Net Position</b>		
<b>Liabilities</b>		
Vouchers payable	60,612	-
Due to individuals, businesses and counties	742,233	-
Other accrued liabilities	-	17
Total liabilities	<u>802,845</u>	<u>17</u>
Net position held in trust for OPEB benefits	<u>\$ -</u>	<u>\$ 626,068</u>

The accompanying notes are an integral part of the basic financial statements.

**State of Hawaii**  
**Fiduciary Funds**  
**Statement of Changes in Fiduciary Net Position – OPEB Trust Fund**  
**Year Ended June 30, 2014**  
**(Amounts in thousands)**

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	<b>OPEB Trust Fund</b>
<b>Additions</b>	
Employer contributions	\$ 262,626
Investment earnings	49,002
	<u>311,628</u>
<b>Deductions</b>	
Administrative expenses	<u>324</u>
Net increase in net position	311,304
<b>Net position</b>	
Beginning of year	<u>314,764</u>
End of year	<u><u>\$ 626,068</u></u>

The accompanying notes are an integral part of the basic financial statements.

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**State of Hawaii**  
**Component Units**  
**Statement of Net Position**  
**June 30, 2014**  
**(Amounts in thousands)**

	<u>University of Hawaii</u>	<u>Hawaii Housing Finance and Development Corporation</u>	<u>Hawaii Public Housing Authority</u>	<u>Hawaii Health Systems Corporation</u>
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 64,307	\$ 176,475	\$ 68,305	\$ 55,687
Receivables				
Accounts and accrued interest, net of allowance for doubtful accounts of \$60,347	89,751	19,307	423	87,460
Notes, loans, mortgages and contributions, net of allowance for doubtful accounts of \$995	17,788	40,830	-	-
Federal government	-	-	1,227	-
Other, net of allowance for doubtful accounts of \$136	-	2,394	245	17,757
Due from primary government	274	7,805	125,128	70,378
Investments	278,046	39	-	5,180
Inventories				
Developments in progress and dwelling units	-	11,359	-	-
Materials and supplies	11,608	-	564	19,379
Prepaid expenses and other assets	13,022	284	2,112	-
Total current assets	<u>474,796</u>	<u>258,493</u>	<u>198,004</u>	<u>255,841</u>
Restricted assets				
Cash and cash equivalents	-	67,536	-	22,388
Investments	-	96,558	-	-
Deposits, funded reserves and other	-	472	-	-
Total restricted assets	<u>-</u>	<u>164,566</u>	<u>-</u>	<u>22,388</u>
Capital assets				
Land and land improvements	163,801	43,231	25,340	7,492
Infrastructure	170,432	-	-	-
Construction in progress	230,965	-	28,977	34,785
Buildings, improvements, and equipment	2,737,273	168,638	598,438	658,074
Less: Accumulated depreciation	<u>(1,230,621)</u>	<u>(115,613)</u>	<u>(349,808)</u>	<u>(345,929)</u>
Total capital assets, net	<u>2,071,850</u>	<u>96,256</u>	<u>302,947</u>	<u>354,422</u>
Other assets				
Notes, loans, mortgages and contributions, net of allowance for doubtful accounts of \$7,408	52,116	469,025	8,717	-
Due from primary government	348,701	10,543	-	-
Investments	499,460	6,455	-	-
Other assets	17,703	-	-	996
Total other assets	<u>917,980</u>	<u>486,023</u>	<u>8,717</u>	<u>996</u>
Total assets	<u>3,464,626</u>	<u>1,005,338</u>	<u>509,668</u>	<u>633,647</u>
<b>Deferred outflows of resources</b>				
Deferred loss on refunding	5,576	588	-	-
Total deferred outflows of resources	<u>\$ 5,576</u>	<u>\$ 588</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of the basic financial statements.

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<u>Hawaii Tourism Authority</u>	<u>Hawaii Community Development Authority</u>	<u>Hawaii Hurricane Relief Fund</u>	<u>Total Component Units</u>
\$ 46,040	\$ 16,330	\$ 944	\$ 428,088
-	431	370	197,742
-	-	-	58,618
-	-	-	1,227
635	3,334	-	24,365
-	7,604	-	211,189
-	-	126,674	409,939
-	-	-	11,359
-	-	-	31,551
45	20	-	15,483
<u>46,720</u>	<u>27,719</u>	<u>127,988</u>	<u>1,389,561</u>
10,756	-	-	100,680
-	-	-	96,558
-	-	-	472
<u>10,756</u>	<u>-</u>	<u>-</u>	<u>197,710</u>
131,497	135,257	-	506,618
-	44,314	-	214,746
2,383	6,349	-	303,459
215,871	19,774	-	4,398,068
<u>(126,136)</u>	<u>(55,360)</u>	<u>-</u>	<u>(2,223,467)</u>
<u>223,615</u>	<u>150,334</u>	<u>-</u>	<u>3,199,424</u>
-	17,000	-	546,858
-	-	-	359,244
18,727	-	-	524,642
-	376	-	19,075
<u>18,727</u>	<u>17,376</u>	<u>-</u>	<u>1,449,819</u>
<u>299,818</u>	<u>195,429</u>	<u>127,988</u>	<u>6,236,514</u>
-	-	-	6,164
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,164</u>

(continued)

**State of Hawaii**  
**Component Units**  
**Statement of Net Position**  
**June 30, 2014**  
**(Amounts in thousands)**

	<u>University of Hawaii</u>	<u>Hawaii Housing Finance and Development Corporation</u>	<u>Hawaii Public Housing Authority</u>	<u>Hawaii Health Systems Corporation</u>
<b>Liabilities</b>				
Current liabilities				
Vouchers and contracts payable	\$ 71,078	\$ 896	\$ 5,345	\$ 104,533
Other accrued liabilities	84,132	7,471	2,517	-
Due to primary government	6,000	-	-	2,000
Unearned revenue	44,010	385	702	-
Notes, mortgages and installation contracts payable	-	65	-	14,260
Accrued vacation and retirement benefits payable	28,491	-	-	16,915
Revenue bonds payable, net	15,345	6,026	-	-
Reserve for losses and loss adjustment costs	5,350	-	-	3,407
Capital lease obligations	-	-	-	9,324
Other liabilities	9,177	-	1,401	7,025
Total current liabilities	<u>263,583</u>	<u>14,843</u>	<u>9,965</u>	<u>157,464</u>
Noncurrent liabilities				
Notes, mortgages and installment contracts payable	17,000	5,466	-	32,174
Accrued vacation and retirement benefits payable	44,341	-	-	25,303
Revenue bonds payable, net	578,585	331,746	-	-
Reserve for losses and loss adjustment costs	8,918	-	-	10,324
Premium on bonds payable	3,802	-	-	-
Capital lease obligations	-	-	-	21,169
Due to primary government	380	-	-	13,800
Unearned revenue	-	22,100	-	-
Estimated future cost of land sold	-	35,272	-	-
Other postemployment benefit liability	579,196	3,685	15,146	302,156
Other liabilities	12,871	1,964	1,554	21,578
Total noncurrent liabilities	<u>1,245,093</u>	<u>400,233</u>	<u>16,700</u>	<u>426,504</u>
Total liabilities	<u>1,508,676</u>	<u>415,076</u>	<u>26,665</u>	<u>583,968</u>
<b>Net position</b>				
Net investment in capital assets	1,519,669	35,073	302,947	307,727
Restricted	816,203	145,006	2,276	980
Unrestricted	(374,346)	410,771	177,780	(259,028)
Total net position	<u>\$ 1,961,526</u>	<u>\$ 590,850</u>	<u>\$ 483,003</u>	<u>\$ 49,679</u>

The accompanying notes are an integral part of the basic financial statements.

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<u>Hawaii Tourism Authority</u>	<u>Hawaii Community Development Authority</u>	<u>Hawaii Hurricane Relief Fund</u>	<u>Total Component Units</u>
\$ 4,973	\$ 424	\$ 255	\$ 187,504
130	149	-	94,399
20,173	-	-	28,173
-	31	-	45,128
-	-	-	14,325
148	135	-	45,689
-	-	-	21,371
-	-	-	8,757
-	-	-	9,324
-	1,559	1,087	20,249
<u>25,424</u>	<u>2,298</u>	<u>1,342</u>	<u>474,919</u>
-	-	-	54,640
408	302	-	70,354
-	-	-	910,331
-	-	-	19,242
-	-	-	3,802
-	-	-	21,169
247,381	-	-	261,561
-	-	-	22,100
-	-	-	35,272
1,988	1,654	-	903,825
-	13,650	-	51,617
<u>249,777</u>	<u>15,606</u>	<u>-</u>	<u>2,353,913</u>
<u>275,201</u>	<u>17,904</u>	<u>1,342</u>	<u>2,828,832</u>
2,489	150,334	-	2,318,239
22,128	7,455	-	994,048
-	19,736	126,646	101,559
<u>\$ 24,617</u>	<u>\$ 177,525</u>	<u>\$ 126,646</u>	<u>\$ 3,413,846</u>

(concluded)



**State of Hawaii**  
**Component Units**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Year Ended June 30, 2014**  
**(Amounts in thousands)**

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	<b>University of Hawaii</b>	<b>Hawaii Housing Finance and Development Corporation</b>	<b>Hawaii Public Housing Authority</b>	<b>Hawaii Health Systems Corporation</b>
<b>Expenses</b>	<u>\$ 1,659,856</u>	<u>\$ 51,778</u>	<u>\$ 139,574</u>	<u>\$ 737,090</u>
<b>Program revenues</b>				
Charges for services	382,191	58,683	19,316	576,460
Operating grants and contributions	494,321	10,015	73,020	2,638
Capital grants and contributions	-	-	13,868	46,716
Total program revenues	<u>876,512</u>	<u>68,698</u>	<u>106,204</u>	<u>625,814</u>
Net program revenues (expenses)	<u>(783,344)</u>	<u>16,920</u>	<u>(33,370)</u>	<u>(111,276)</u>
<b>General revenues (expenses)</b>				
Interest and investment income (loss)	51,520	-	-	252
Transient accommodations tax	-	-	-	-
Payments from State, net	699,028	15,911	49,631	120,494
Gifts and subsidies	61,127	-	14,478	-
Other	<u>(3,702)</u>	<u>-</u>	<u>46</u>	<u>(2,822)</u>
Net general revenues	<u>807,973</u>	<u>15,911</u>	<u>64,155</u>	<u>117,924</u>
Change in net position	<u>24,629</u>	<u>32,831</u>	<u>30,785</u>	<u>6,648</u>
<b>Net position</b>				
Beginning of year, as restated	<u>1,936,897</u>	<u>558,019</u>	<u>452,218</u>	<u>43,031</u>
End of year	<u>\$ 1,961,526</u>	<u>\$ 590,850</u>	<u>\$ 483,003</u>	<u>\$ 49,679</u>

The accompanying notes are an integral part of the basic financial statements.

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<b>Hawaii Tourism Authority</b>	<b>Hawaii Community Development Authority</b>	<b>Hawaii Hurricane Relief Fund</b>	<b>Total Component Units</b>
<u>\$ 102,292</u>	<u>\$ 9,412</u>	<u>\$ 5</u>	<u>\$ 2,700,007</u>
8,205	15,910	-	1,060,765
-	-	-	579,994
<u>-</u>	<u>-</u>	<u>-</u>	<u>60,584</u>
8,205	15,910	-	1,701,343
<u>(94,087)</u>	<u>6,498</u>	<u>(5)</u>	<u>(998,664)</u>
587	(249)	1,444	53,554
115,000	-	-	115,000
190	3,126	104,413	992,793
-	-	-	75,605
<u>8</u>	<u>-</u>	<u>-</u>	<u>(6,470)</u>
<u>115,785</u>	<u>2,877</u>	<u>105,857</u>	<u>1,230,482</u>
21,698	9,375	105,852	231,818
2,919	168,150	20,794	3,182,028
<u>\$ 24,617</u>	<u>\$ 177,525</u>	<u>\$ 126,646</u>	<u>\$ 3,413,846</u>

# State of Hawaii

## Notes to Basic Financial Statements

### June 30, 2014

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#### 1. Summary of Significant Accounting Policies

The basic financial statements of the State of Hawaii (the State) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The State's significant accounting policies are described below.

##### **Reporting Entity**

The accompanying basic financial statements present the financial activity of the State (Primary Government) and its Component Units, entities for which the Primary Government is considered to be financially accountable. Discretely presented Component Units are legally separate organizations for which the Primary Government is financially accountable or for which the nature and significance of their relationship to the Primary Government are such that exclusion would cause the State's reporting entity to be misleading or incomplete.

##### **Primary Government**

The following branches and departments are included in the State's reporting entity because of the significance of their operational or financial relationships with the State.

##### Executive:

- Accounting and General Services
- Agriculture
- Attorney General
- Budget and Finance
- Business, Economic Development and Tourism
- Commerce and Consumer Affairs
- Defense
- Education
- Hawaiian Home Lands
- Health
- Human Resource Development
- Human Services
- Labor and Industrial Relations
- Land and Natural Resources
- Public Safety
- Taxation
- Transportation

##### Judicial

##### Legislative

##### **Discretely Presented Component Units**

The Component Units column in the basic financial statements includes the financial data of the State's discretely presented Component Units. They are reported in a separate column to emphasize that they are legally separate from the State. The governing bodies of these discretely presented Component Units are appointed by the Governor of the State (Governor). The discretely presented Component Units are as follows:

# State of Hawaii

## Notes to Basic Financial Statements

### June 30, 2014

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**University of Hawaii** – The University of Hawaii (UH) is Hawaii's sole public higher education system and is governed by a Board of Regents consisting of fifteen members appointed by the Governor of the State of Hawaii. The University system is comprised of ten campuses with approximately 60,000 students and 10,000 faculty and staff. UH provides a broad range of 385 degree programs from baccalaureate to post-doctoral level, through a framework of sixteen colleges and nine professional schools. Through its seven community colleges on Oahu, Hawaii, Maui and Kauai, UH offers more than 279 certificate and associate degree programs and, in certain areas, baccalaureate degrees. In addition to organized research institutes and administrative service and distance learning centers, the UH system houses more than a hundred centers with research and service activities at hundreds of Hawaii schools, hospitals and community sites, and carries out these activities across the Pacific Islands and in foreign countries. Hawaii Revised Statutes (HRS) Chapter 304 governs the activities of the UH.

**Hawaii Housing Finance and Development Corporation** – Hawaii Housing Finance and Development Corporation (HHFDC) is a corporate body placed within the Department of Business, Economic Development and Tourism (DBEDT) for administrative purposes. Act 196, Session Laws of Hawaii (SLH) of 2005, as amended by Act 180, SLH of 2006, created the HHFDC. The HHFDC is tasked with developing and financing low and moderate income housing projects and administering home-ownership programs. HRS Chapter 201H states that the HHFDC shall be a public body and a body corporate and politic and be headed by a board of directors comprised of nine voting members. The nine members consist of the following:

- Six public members appointed by the Governor:
  - At least four of the public members shall have knowledge and expertise in public or private financing and development of affordable housing.
  - Public members shall be appointed from each of the counties of Honolulu, Hawaii, Maui and Kauai.
  - At least one public member shall represent community advocates for low-income housing, affiliated with private nonprofit organizations that serve the residents of low-income housing.
  - The public members of the board of directors shall serve four-year staggered terms; provided that the initial appointments shall be as follows:
    - Two members to be appointed for four years;
    - Two members to be appointed for three years; and
    - Two members to be appointed for two years.
- The Director of DBEDT or a designated representative,
- The Director of Finance or a designated representative, and
- A representative of the Governor's office.

# State of Hawaii

## Notes to Basic Financial Statements

### June 30, 2014

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**Hawaii Public Housing Authority** – Act 196, SLH of 2005, as amended by Act 180, SLH of 2006, created the Hawaii Public Housing Authority (HPHA).

HPHA is administratively attached to the Department of Human Services. Its mission is to provide safe, decent and sanitary dwelling for low and moderate income residents of the State of Hawaii and to operate its housing program in accordance with federal and state of Hawaii laws and regulations.

HRS Chapter 356D states that the HPHA shall be a public body and a body corporate and politic and be headed by a board of directors comprised of 11 members. The 11 members consist of the following:

- Nine public members appointed by the Governor (four appointed from each of the counties of Honolulu, Hawaii, Maui and Kauai, and five appointed at large);
- The Director of Human Services, as an Ex Officio voting member; and
- A representative of the Governor's office, as an Ex Officio voting member.

**Hawaii Health Systems Corporation** – The Hawaii Health Systems Corporation (HHSC) is a public body corporate and politic and an instrumentality and agency of the State of Hawaii. HHSC is managed by a chief executive officer under the control of a 13-member board of directors.

Act 262, SLH of 1996, which became effective in fiscal year 1997, transferred all facilities under the administration of the Department of Health – Division of Community Hospitals to HHSC. HHSC operates the following facilities:

**East Hawaii Region:**

Hilo Medical Center  
Hale Ho'ola Hamakua  
Ka'u Hospital  
Yukio Okutsu Veterans Care Home

**Maui Region:**

Maui Memorial Medical Center  
Kula Hospital  
Lanai Community Hospital

**West Hawaii Region:**

Kona Community Hospital  
Kohala Hospital

**Oahu Region:**

Leahi Hospital  
Maluhia

**Kauai Region:**

Kauai Veterans Memorial Hospital  
Samuel Mahelona Memorial Hospital

Kahuku Medical Center

Act 262 also amended a previous act to exempt all facilities from the obligation to pay previously allocated central service and departmental administration expenses by the State.

HHSC is considered to be administratively attached to the Department of Health of the State and is a component unit of the State. Hawaii Health Systems Foundation (HHSF) and Alii Community Care, Inc. (Alii) are nonprofit organizations of which HHSC is the sole member. The purpose of HHSF is to raise funds and obtain gifts and grants on behalf of HHSC. The purpose of Alii is to own, manage and operate assisted living and other healthcare facilities in the State.

# State of Hawaii

## Notes to Basic Financial Statements

### June 30, 2014

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Act 290, SLH of 2007, which became effective July 1, 2007, required the establishment of a 7 to 15 member regional system board of directors for each of the five regions of the HHSC system. Each regional board was given custodial control and responsibility for management of the facilities and other assets in their respective regions. This Act also restructured the 13-member HHSC board of directors to 15 members, comprised of 10 members appointed by the Governor from nominees submitted by legislative leadership, two at-large members at the Governor's discretion, two physician members selected by the HHSC board, and the State Director of Health.

Act 290 also exempted the regions from the requirements of the State procurement code and other exemptions from State agency laws, such as tax clearance certificate requirements, the concession law, and the sunshine law.

Act 182, SLH of 2009, effective July 1, 2009, allowed the individual facilities or regions of HHSC to transition into a new legal entity in any form recognized under the laws of the State of Hawaii, including but not limited to a nonprofit corporation, a for-profit corporation, a municipal facility, a public benefit corporation, or a combination of the above. The Act also amended the requirement for maintenance of services to outline a process that must be followed in order for a facility to substantially reduce or eliminate a direct patient care service. Further, the Act reconstituted the HHSC board of directors to a 12-member board of directors which includes the five regional chief executive officers, one representative each appointed by the East Hawaii, West Hawaii, Kauai and Oahu regional boards, two members appointed by the Maui regional board, and the Director of the Department of Health as an ex-officio non-voting member.

Act 126, SLH of 2011, effective July 1, 2011, reconstituted the HHSC board of directors to a 13-member board of directors by adding an at-large voting member appointed by the Governor and changing the voting status of the Director of the Department of Health from a non-voting to voting member.

In June 2013, Act 278, SLH 2013, effective July 2013, again reconstituted the HHSC board of directors by adding five regional members appointed by the Governor and making the five regional chief executive officers ex-officio, nonvoting members.

***Hawaii Tourism Authority*** – The Hawaii Tourism Authority (HTA) was established on January 1, 1999, by Act 156, SLH of 1998 and was placed within DBEDT for administrative purposes. The HTA is responsible for developing a strategic tourism marketing plan and developing measures of effectiveness to assess the overall benefits and effectiveness of the marketing plan as it relates to the State's tourism industry, employment, taxes, and lesser known and underutilized destinations. In addition, effective July 1, 2000, control and management of the Hawaii Convention Center (the Center) was transferred to the HTA from the Convention Center Authority (CCA) by Executive Order No. 3817. Effective July 1, 2002, the Center, by statute, became the responsibility of the HTA. The Center, which opened to the general public in June 1998, is used for a variety of events including conventions and trade shows, public shows, and spectator events. The Center offers approximately 350,000 square feet of rentable space including 51 meeting rooms.

The HTA is governed by a board of directors comprised of 12 voting members. The Governor appoints the 12 voting members.

**State of Hawaii**  
**Notes to Basic Financial Statements**  
**June 30, 2014**

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***Hawaii Community Development Authority*** – The Hawaii Community Development Authority (HCDA) was established as a body corporate and a public instrumentality of the State, which is attached to DBEDT for administrative purposes. The HCDA was established to supplement traditional community renewal methods by promoting and coordinating public and private sector community development. The HCDA has redevelopment responsibility for the Kaka’ako, Kalaeloa, and He’eia Community Development Districts.

The HCDA was established by HRS Chapter 206E, to join the strengths of private enterprise, public development and regulation into a form capable of long-term planning and implementation of improved community development in urban areas in the State.

The HCDA is comprised of 16 voting members who, as a body, oversee the HCDA’s operations and establish policies to implement its legislative objectives. The board is required to report annually to the State Legislature and the Governor. The 16-member board is comprised of the following:

- Five members that vote on issues related to Kaka’ako, Kalaeloa and He’eia:
  - The Director of Budget and Finance, as an Ex Officio voting member,
  - The Director of DBEDT, as an Ex Officio voting member,
  - The Comptroller of the Department of Accounting and General Services, as an Ex Officio voting member,
  - The Director of Transportation, as an Ex Officio voting member, and
  - One member who is a cultural expert.
- The Chairperson of the Hawaiian Homes Commission that votes only on issues related to Kalaeloa.
- One member appointed by the Governor that votes only on issues related to Kaka’ako and He’eia.
- Three members appointed by the Governor that vote only on issues related to Kaka’ako:
  - The members are selected by the Governor from a list of names submitted by the Honolulu City Council.
- Three members appointed by the Governor that vote only on issues related to Kalaeloa:
  - The members are selected by the Governor from a list of names submitted by the Honolulu City Council.
- Three members appointed by the Governor that vote only on issues related to He’eia:
  - The members shall be residents of the He’eia community development district or the Koolauapoko district.

# State of Hawaii

## Notes to Basic Financial Statements

### June 30, 2014

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**Hawaii Hurricane Relief Fund** – The Hawaii Hurricane Relief Fund (HHRF) was organized pursuant to, and operates in accordance with, HRS Chapter 431P. The HHRF, which began operations on July 1, 1993, was established as a public body and a body corporate and politic to be placed within the Department of Commerce and Consumer Affairs for administrative purposes. The HHRF was primarily organized to provide hurricane property insurance policies in the State of Hawaii in the event the private insurance market does not make such policies readily available to consumers in Hawaii.

Due to the increase in the availability of hurricane property insurance coverage from the private sector, the HHRF ceased writing hurricane property insurance policies effective December 1, 2000.

Although the HHRF no longer functions in its capacity to provide hurricane property insurance coverage subsequent to November 2001, it has been determined at this time that the HHRF should not be dissolved in the event it may need to reenter the insurance market.

The HHRF is administered and operated by a board of directors. The board of directors consists of the following seven members:

- The Insurance Commissioner, as an Ex Officio voting member, appointed by the Governor; and
- Six members appointed by the Governor with the advice and consent of the Senate:
  - Two members appointed by the Governor;
  - Two members appointed by the Governor from a list of nominations submitted by the President of the Senate; and
  - Two members appointed by the Governor from a list of nominations submitted by the Speaker of the House of Representatives.

Information for obtaining financial statements for the discretely presented Component Units may be obtained from the Department of Accounting and General Services (DAGS), 1151 Punchbowl Street, Room 400, Honolulu, Hawaii 96813.

The Employees' Retirement System of the State of Hawaii (ERS), which is administered on behalf of public employees for both the State and county governments, and the Office of Hawaiian Affairs (OHA), which exists for the betterment of the conditions of native Hawaiians, are excluded from the State's reporting entity because those agencies, based on the fiscal independence and/or separate legal entity status, are not accountable to the State.

#### **Government-Wide and Fund Financial Statements**

The Government-Wide financial statements (the statement of net position and the statement of activities) report information of all of the nonfiduciary activities of the Primary Government and its Component Units. For the most part, the effect of interfund activity has been removed from these Government-Wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the Primary Government is reported separately from the legally separate Component Units for which the Primary Government is financially accountable.



**State of Hawaii**  
**Notes to Basic Financial Statements**  
**June 30, 2014**

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The statement of activities demonstrates the degree to which the direct expenses of a given function, segment, or component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment or component unit. Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a given function, segment or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment or component unit. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues. The State does not allocate general government (indirect) expenses to other functions.

Net position is restricted when legally enforceable enabling legislation places restrictions or when restrictions are externally imposed by citizens and/or public interest groups. Additionally, restricted net position is reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the government has other cause for reconsideration. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, generally, it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for Governmental Funds, Proprietary Funds, Fiduciary Funds, and major Component Units. However, the Fiduciary Funds are not included in the Government-Wide financial statements. Major individual Governmental Funds and major individual Proprietary Funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

***Government-Wide Financial Statements***

The Government-Wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

***Governmental Funds Financial Statements***

The Governmental Funds financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the current fiscal year. Revenues susceptible to accrual include taxpayer-assessed tax revenues. Taxpayer-assessed tax revenues primarily consist of income and general excise taxes. Other revenues, which are not considered susceptible to accrual, and therefore, are not accrued include fines, forfeitures and penalties, licenses, permits, and franchises.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenue when available and entitlement occurs which is generally within 12 months of the end of the current fiscal year. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred as of fiscal year-end and funds are available.

# State of Hawaii

## Notes to Basic Financial Statements

### June 30, 2014

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Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

#### ***Proprietary Funds, Fiduciary Funds and Component Units Financial Statements***

The financial statements of the Proprietary Funds, Fiduciary Funds and Component Units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the Government-Wide financial statements described above. Agency Funds do not have a measurement focus and report only assets and liabilities.

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### **Fund Accounting**

The financial activities of the State are recorded in individual funds, each of which is deemed to be a separate accounting entity. The State uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the State that are reported in the accompanying fund financial statements have been classified into the following major and nonmajor Governmental and Proprietary Funds. In addition, a description of the Fiduciary Funds and Component Units are as follows:

***Governmental Fund Types*** – The State reports the following major Governmental Funds:

- **General Fund** — This fund is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- **Capital Projects Fund** – This fund accounts for substantially all of the financial resources obtained and used for the acquisition or construction of the State's capital assets and facilities. Such resources are derived principally from proceeds of general obligation and revenue bond issues, federal grants, and transfers from the Special Revenue Funds.
- **Med-Quest Special Revenue Fund** – This fund accounts for the State's Medicaid program through which healthcare is provided to the low-income population. The Medicaid program is jointly financed by the State and the federal government.

The nonmajor Governmental Funds are comprised of the following:

- **Special Revenue Funds** – These funds account for the financial resources obtained from specific revenue sources and used for restricted purposes.
- **Debt Service Fund** – This fund accounts for the financial resources obtained and used for the payment of principal and interest on general and revenue long-term bond obligations. This fund also accounts for financial resources obtained and used to refund existing debt.

**State of Hawaii**  
**Notes to Basic Financial Statements**  
**June 30, 2014**

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**Proprietary Fund Type – Enterprise Funds** – The major Enterprise Funds are comprised of the following:

- **Department of Transportation – Airports Division** (Airports) – Airports operates the State's airports and air navigation facilities and is responsible for general supervision of aeronautics within the State.
- **Department of Transportation – Harbors Division** (Harbors) – Harbors maintains and operates the State's commercial harbors system.
- **Unemployment Compensation Fund** – This fund accounts for the unemployment compensation benefits to qualified recipients.

The nonmajor Enterprise Funds are comprised of, the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), the Water Pollution Control Revolving Fund (WPCF), and the Drinking Water Treatment Revolving Loan Fund (DWTLF). The EUTF accounts for the benefits relating to active employees and beneficiaries, which includes medical, dental and life insurance coverage. The WPCF accounts for loans to county agencies for the construction of wastewater treatment facilities. The DWTLF accounts for loans to county agencies for construction of drinking water treatment facilities.

**Fiduciary Fund Types –**

- **Agency Funds** – Agency Funds account for retiree healthcare benefits, which includes medical, dental and life insurance coverage as well as various taxes, deposits and property held by the State, pending distribution to other governments and individuals.
- **Other Post-Employment Benefit (OPEB) Trust Fund** – Accounts for plan assets and related expenses from the pre-funding contributions made by the State and counties. The OPEB Trust Fund meets the criteria for plans that are administered as trusts, or equivalent arrangements.

**Component Units** – Component Units are comprised of the:

- UH, which is comprised of the State's public institutions of higher education;
- HHFDC, which finances housing programs for residents of the State;
- HPHA, which manages state housing programs;
- HHSC, which provides quality health care for the people of the State;
- HTA, which manages the State's convention center as well as markets the State's visitor industry;
- HCDA, which coordinates private and public community development for residents of the State; and
- HHRF, which funds, assesses and provides, when necessary, hurricane property insurance to residents of the State.

# State of Hawaii

## Notes to Basic Financial Statements

### June 30, 2014

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#### **Cash and Cash Equivalents**

Cash and cash equivalents include all cash, repurchase agreements, and U.S. government securities with original maturities of three months or less, and time certificates of deposit. For purposes of the statement of cash flows, the State has defined cash equivalents to be all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased.

#### **Receivables and Payables**

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables/interfund payables. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the Government-Wide financial statements as internal balances.

All tax and other receivables are shown net of an allowance for uncollectible accounts and estimated refunds due.

#### **Investments**

Investments in U.S. government securities and time certificates of deposit are carried at fair value based on quoted market prices. Investments in repurchase agreements are carried at cost.

#### **Inventories**

Inventories of developments in progress and units available for sale are stated at the lower of cost or estimated net realizable value, with cost being determined by the specific-identification method. All estimated carrying costs to the anticipated date of disposition are considered in the determination of estimated net realizable value. Units available for sale include constructed units, developed lots, and repurchased units available for sale. Developments in progress include construction in progress and land held for future development.

Materials and supplies inventories are stated at the lower of cost or market, with cost being determined principally using the first-in, first-out method.

#### **Restricted Assets**

Revenue bond indentures authorize the State's trustees to invest monies in time certificates of deposit, money market funds, and investment securities, including U.S. government or agency obligations, certain municipal bonds, and repurchase agreements. Uninsured time certificates of deposit are required to be collateralized by investment securities of an equal or greater market value. The underlying securities for repurchase agreements are required to be U.S. government or agency obligations of an equal or greater market value held by the State's agent in the State's name.

#### **Capital Assets**

Capital assets, which include land and land improvements, infrastructure assets (e.g., roads, bridges, sidewalks and similar items), buildings and improvements, and equipment, are reported in the applicable governmental and business-type activities columns, as well as the Component Units column, in the Government-Wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed to the extent the State's capitalization thresholds are met. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned, on the invested proceeds over the same period.

# State of Hawaii

## Notes to Basic Financial Statements

### June 30, 2014

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The State's capitalization thresholds are \$5,000 for equipment, and \$100,000 for land and land improvements, infrastructure, and buildings and improvements. The primary government's capitalization threshold is \$1,000,000 for purchased and internally generated software and \$100,000 for other intangible assets. Component units and major enterprise funds establish separate capitalization thresholds and estimated useful lives, as appropriate. Maintenance and repairs are charged to operations when incurred. Betterments and major improvements, which significantly increase values, change capacities, or extend useful lives, are capitalized. Upon sale or retirement of capital assets, the cost and the related accumulated depreciation, as applicable, are removed from the respective accounts, and any resulting gain or loss is recognized in the statement of activities.

Capital assets of the Primary Government, as well as the Component Units, are depreciated or amortized using the straight-line method over the following estimated useful lives:

Infrastructure	12–50 years
Buildings and improvements	15–30 years
Equipment	5–7 years
Computer software	5–15 years
Other intangible assets	30 years

Works of art and historical treasures held for public exhibition, education or research in furtherance of public service, rather than financial gain, are capitalized. These items are protected, kept encumbered, conserved and preserved by the State. It is the State's policy to utilize proceeds from the sale of these items for the acquisition of other items for collection and display.

#### **Compensated Absences**

It is the State's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. All vacation pay is accrued when incurred in the Government-Wide, Proprietary Funds, and Component Units financial statements. A liability for these amounts is reported in the Governmental Funds only if they have matured, for example, as a result of employee resignations and retirements.

#### **Long-Term Obligations**

In the Government-Wide financial statements, Proprietary Fund financial statements, and Component Unit financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, Proprietary Fund, or Component Units statement of net position. Initial-issue bond premiums and discounts, as well as prepaid insurance costs, are deferred and amortized over the life of the bonds using the effective-interest method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the life of the refunding debt or the remaining life of the refunded debt. Bond issuance costs except any portion related to prepaid insurance costs, are expensed in the period incurred. Amortization of bond premiums or discounts, prepaid insurance costs, and deferred amounts on refunding is included in interest expense.

In the fund financial statements, Governmental Funds recognize bond premiums, discounts and prepaid insurance costs during the period issued. The face amount of debt issued is reported as other financing sources. Premiums received are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

# State of Hawaii

## Notes to Basic Financial Statements

### June 30, 2014

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#### **Net Position and Fund Balance**

In the Government-Wide financial statements and Proprietary Funds and Component Units financial statements, net position is reported in three categories: net investment in capital assets, net of related debt; restricted net position; and unrestricted net position. Restricted net position represents net position restricted by parties outside of the State (such as citizens, public interest groups, or the judiciary), or imposed by law through enabling legislation, and include unspent proceeds of bonds issued to acquire or construct capital assets.

In the fund financial statements, Governmental Funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The State classifies fund balance based primarily on the extent to which a government is bound to follow constraints on how resources can be spent in accordance with GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. Classifications include:

- **Restricted** — Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments. Sources of these externally enforceable legal restrictions include creditors, grantors or other governments.
- **Committed** — Balances that can only be used for specific purposes pursuant to constraints imposed by formal action (i.e., legislation) of the State's Legislature, the highest level of decision-making authority. Legislation is required to modify or rescind a fund balance commitment.
- **Assigned** — Balances that are constrained by management to be used for specific purposes, as authorized by the Hawaii Revised Statutes, but are not restricted or committed. For general fund only, encumbrance balances at fiscal year-end are classified as assigned.
- **Unassigned** — Residual balances that are not contained in the other classifications.

The State spends restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the State would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

**State of Hawaii**  
**Notes to Basic Financial Statements**  
**June 30, 2014**

The following table presents the State's fund balance by major function at June 30, 2014:

	<b>General Fund</b>	<b>Capital Projects Fund</b>	<b>Med-Quest Special Revenue Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Restricted for</b>					
Welfare	\$ -	\$ -	\$ -	\$ 27,110	\$ 27,110
Debt service	-	-	-	35	35
	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,145</u>	<u>27,145</u>
<b>Committed to</b>					
General Government	-	-	-	51,966	51,966
Public Safety	-	-	-	38,916	38,916
Highways	-	-	-	18,577	18,577
Conservation of Natural Resources	-	-	-	94,766	94,766
Health	-	-	-	158,886	158,886
Welfare	-	-	-	1,257	1,257
Culture & Recreation	-	-	-	3,270	3,270
Urban Development and Housing	-	-	-	96,727	96,727
Economic Development	-	-	-	33,567	33,567
	<u>-</u>	<u>-</u>	<u>-</u>	<u>497,932</u>	<u>497,932</u>
<b>Assigned to</b>					
General Government	27,562	-	-	113,430	140,992
Public Safety	14,777	-	-	43,560	58,337
Highways	-	-	-	145,356	145,356
Conservation of Natural Resources	9,134	-	-	37,536	46,670
Health	66,255	-	-	-	66,255
Welfare	54,966	-	10,466	-	65,432
Education	79,546	-	-	152,879	232,425
Culture & Recreation	1,353	-	-	8,457	9,810
Urban Development and Housing	1,589	-	-	201,712	203,301
Economic Development	1,301	-	-	25,883	27,184
	<u>256,483</u>	<u>-</u>	<u>10,466</u>	<u>728,813</u>	<u>995,762</u>
<b>Unassigned</b>	<u>1,079,180</u>	<u>(545,502)</u>	<u>-</u>	<u>(42,903)</u>	<u>490,775</u>
<b>Total</b>	<u>\$ 1,335,663</u>	<u>\$ (545,502)</u>	<u>\$ 10,466</u>	<u>\$ 1,210,987</u>	<u>\$ 2,011,614</u>

**Nonexchange Transactions**

The Enterprise Funds and Component Units recognize contributed capital as nonoperating revenues.

**Medicare and Medicaid Reimbursements**

Revenues from services reimbursed under Medicare and Medicaid programs are recorded at the estimated reimbursable amounts. Final determination of the amounts earned is subject to review by the fiscal intermediary or a peer review organization. The State has the opinion that adequate provision has been made for any adjustments that may result from such reviews.

**Risk Management**

The State is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State generally retains the first \$1,000,000 per occurrence of property losses, the first \$4,000,000 with respect to general liability claims, and the first \$500,000 of losses due to crime. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is \$200,000,000, except for earthquake, which individually is a \$100,000,000 aggregate loss, and terrorism, which is \$50,000,000 per occurrence. The annual aggregate limit for general liability losses is \$15,000,000 per occurrence and for crime losses, the limit per occurrence is \$10,000,000 with no aggregate limit. The State also has an insurance policy to cover medical malpractice risk in

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## Notes to Basic Financial Statements

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the amount of \$35,000,000 per occurrence and \$39,000,000 in the aggregate. The State is generally self-insured for workers' compensation and automobile claims.

The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year-end, nonincremental estimates (based on projections of historical developments) of claims incurred but not reported, and nonincremental estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The State believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed, and as settlements are made and reserves adjusted, the differences are reported in current operations. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimable.

#### **Deferred Compensation Plan**

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the accompanying basic financial statements.

#### **Use of Estimates**

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

#### **Newly Issued Accounting Pronouncements**

##### ***GASB Statement No. 65***

During fiscal year 2014, the State implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement specifies the items that were previously reported as assets and liabilities that should now be reported as deferred outflows of resources, deferred inflows of resources, outflows of resources, or inflows of resources. The provisions of this standard require that deferred charges related to bond issuance costs (other than insurance) be expensed rather than amortized. As a result, net position as of July 1, 2013 for governmental activities and business-type activities was reduced by \$17,454,000 and \$7,331,000, respectively. In addition, \$116,588,000 and \$10,952,000 previously recorded as Bond Issue Costs – Net has been reclassified as Deferred Outflow of Resources – Deferred Loss on Refunding for governmental activities and business-type activities, respectively.

##### ***GASB Statement No. 66***

The GASB issued Statement No. 66, *Technical Corrections – 2012 – an Amendment of GASB Statement No. 10 and No. 62*, which became effective for financial statements for periods beginning after December 15, 2012. The objective of this Statement is to resolve conflicting accounting and financial reporting guidance between previously issued statements. This Statement did not have a material impact on the State's financial statements.



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#### ***GASB Statement No. 67***

The GASB issued Statement No. 67, *Financial Reporting for Pension Plans; an Amendment of GASB Statement No. 25*, which became effective for financial periods beginning after June 15, 2013. This Statement replaces the requirements of Statements No. 25 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trust or equivalent arrangements. The Employees' Retirement System of the State of Hawaii (ERS), which is administered on behalf of public employees for both the State and county governments, is excluded from the State's reporting entity; therefore, this Statement did not have a material impact on the State's financial statements.

#### ***GASB Statement No. 68***

The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, which will become effective for financial statements for fiscal years beginning after June 15, 2014. This Statement establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements in which:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

The State is currently evaluating the impact that Statement No. 68 will have on its financial statements.

#### ***GASB Statement No. 69***

The GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which will become effective for financial statements for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The State does not expect that this Statement will have a material effect on its financial statements.

#### ***GASB Statement No. 70***

The GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which became effective for reporting periods beginning after June 15, 2013. This Statement establishes accounting and financial reporting standards for financial guarantees that are nonexchange transactions (nonexchange financial guarantees). This Statement did not have a material effect on the State's financial statements.

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***GASB Statement No. 71***

The GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*, which should be applied simultaneously with the provisions of Statement No. 68. Statement No. 71 amends the requirement related to certain pension contributions made to defined benefit pension plans prior to implementation of Statement No. 68 by employers and nonemployer contributing entities. The State is currently evaluating the impact that Statement No. 71 will have on its financial statements.

**2. Cash and Investments**

The Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance pools and invests any monies of the State, which in the Director of Finance's judgment, are in excess of the amounts necessary for meeting the specific requirements of the State. Investment earnings are allocated to the Primary Government based on its equity interest in the pooled monies. Legally authorized investments include obligations of or guaranteed by the U.S. government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally-insured financial institutions.

**Cash**

The State maintains approximately 20 bank accounts for various purposes at locations throughout the State and the nation. Bank deposits are under the custody of the Director of Finance. For financial statement reporting purposes, cash and cash equivalents consist of cash, time certificates of deposit, and money market accounts. Cash and cash equivalents also include repurchase agreements and U.S. government securities with original maturities of three months or less.

The carrying amount of the State's unrestricted and restricted deposits (cash, time certificates of deposit, and money market accounts) as of June 30, 2014, was \$1,656,771,000 and \$1,046,095,000, respectively, for the Primary Government and unrestricted cash for the Fiduciary Funds as of June 30, 2014, was \$485,328,000.

Information relating to the bank balance, insurance and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. Total bank balances of deposits for the Primary Government and Fiduciary Funds amounted to approximately \$2,616,080,000 at June 30, 2014. Of that amount, approximately \$2,615,980,000 represents bank balances covered by federal deposit insurance or by collateral held either by the State Treasury or by the State's fiscal agents in the name of the State. Bank balances of \$358,556,000 represent deposits with the U.S. Department of the Treasury for the State's Unemployment Trust Fund, which were uncollateralized, and the Special Revenue Funds' and Proprietary Funds' cash in bank, which was uninsured and uncollateralized. The Special Revenue Funds' and Proprietary Funds' cash balances were held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations. Accordingly, these deposits were exposed to custodial credit risk. Custodial credit risk is the risk that, in the event of a bank failure, the State's deposits may not be returned to it. For demand or checking accounts and time certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances being under-collateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State. The State also requires that no more than 60% of the State's total funds available for deposit and on deposit in the State Treasury may be deposited in any one financial institution.

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**Notes to Basic Financial Statements**  
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**Investments**

The State holds investments both for its own benefit and as an agent for other parties.

Further, the State pools all excess funds into an investment pool that is administered by the State Department of Budget and Finance (Budget and Finance). The pool's investment options are limited to investments listed in the Hawaii Revised Statutes. As of June 30, 2014, the State had material investments in repurchase agreements. According to Budget and Finance, the repurchase agreement investment contracts are valued on the cost basis.

At the end of each year, Budget and Finance allocates the investment pool amount to each of the participants including those participants who are part of the Proprietary Funds and Fiduciary Funds. The allocation is based on the average monthly investment balance of each participant in the investment pool.

The following table presents the State's investments and maturities at June 30, 2014 (amounts expressed in thousands).

		Maturity (in years)		
	Fair Value	Less than 1	1–5	>5
Investments – Primary government				
Certificates of deposit	\$ 947,868	\$ 890,025	\$ 57,843	\$ -
U.S. government securities	1,098,666	257,086	840,670	910
Repurchase agreements	107,712	75,578	32,134	-
	<u>\$ 2,154,246</u>	<u>\$ 1,222,689</u>	<u>\$ 930,647</u>	<u>\$ 910</u>
Investments – Fiduciary funds				
Certificates of deposit	\$ 176,603	\$ 165,826	\$ 10,777	\$ -
U.S. government securities	204,698	47,899	156,630	169
Repurchase agreements	20,068	14,081	5,987	-
	<u>401,369</u>	<u>\$ 227,806</u>	<u>\$ 173,394</u>	<u>\$ 169</u>
Mutual funds	<u>408,272</u>			
Total investments	\$ 809,641			

**Interest Rate Risk**

As a means of limiting its exposure to fair value losses arising from rising interest rates, the State's investment policy generally limits maturities on investments to not more than five years from the date of investment.

**Credit Risk**

The State's investment policy limits investments in state and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptances, and money market funds maintaining a Triple-A rating.

**Custodial Risk**

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The State's investments are held at broker/dealer firms, which are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. Excess-SIPC coverage is provided by the firms' insurance policies. In addition, the State requires the institutions to set aside in safekeeping certain types of securities to collateralize repurchase agreements. The State monitors the market value of these securities and obtains additional collateral when appropriate.

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**Concentration of Credit Risk**

The State's policy provides guidelines for portfolio diversification by placing limits on the amount the State may invest in any one issuer, types of investment instruments, and position limits per issue of an investment instrument.

**3. Capital Assets**

For the fiscal year ended June 30, 2014, capital assets activity for the Primary Government (governmental activities and business-type activities) was as follows (amounts expressed in thousands):

	<b>Governmental Activities</b>			<b>Balance at June 30, 2014</b>
	<b>Balance at July 1, 2013</b>	<b>Additions</b>	<b>Deductions</b>	
<b>Capital assets not being depreciated</b>				
Land and land improvements	\$ 2,232,588	\$ 4,305	\$ (2)	\$ 2,236,891
Construction in progress	864,716	274,246	(211,061)	927,901
Total capital assets not being depreciated	3,097,304	278,551	(211,063)	3,164,792
<b>Capital assets being depreciated</b>				
Infrastructure	9,046,606	109,589	(2,911)	9,153,284
Buildings and improvements	4,064,946	140,724	-	4,205,670
Equipment	404,666	91,551	(23,228)	472,989
Intangible assets – software	-	83,289	-	83,289
Total capital assets being depreciated	13,516,218	425,153	(26,139)	13,915,232
Less: Accumulated depreciation and amortization				
Infrastructure	(5,144,167)	(290,049)	632	(5,433,584)
Buildings and improvements	(2,211,969)	(107,889)	228	(2,319,630)
Equipment	(328,057)	(31,577)	17,703	(341,931)
Intangible assets – software	-	(5,949)	-	(5,949)
Total accumulated depreciation and amortization	(7,684,193)	(435,464)	18,563	(8,101,094)
Total capital assets	\$ 8,929,329	\$ 268,240	\$ (218,639)	\$ 8,978,930
<b>Business-type Activities</b>				
	<b>Balance at July 1, 2013</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at June 30, 2014</b>
<b>Capital assets not being depreciated</b>				
Land and land improvements	\$ 605,915	\$ 20,023	\$ (1)	\$ 625,937
Construction in progress	415,562	250,492	(101,191)	564,863
Total capital assets not being depreciated	1,021,477	270,515	(101,192)	1,190,800
<b>Capital assets being depreciated</b>				
Land and improvements	1,188,453	45,754	(1)	1,234,206
Buildings and improvements	2,132,532	33,401	(1,256)	2,164,677
Equipment	312,920	3,713	(4,961)	311,672
Total capital assets being depreciated	3,633,905	82,868	(6,218)	3,710,555
Less: Accumulated depreciation				
Land and improvements	(783,156)	(32,287)	138	(815,305)
Buildings and improvements	(1,139,287)	(60,124)	(60)	(1,199,471)
Equipment	(199,860)	(19,766)	4,822	(214,804)
Total accumulated depreciation	(2,122,303)	(112,177)	4,900	(2,229,580)
Total capital assets	\$ 2,533,079	\$ 241,206	\$ (102,510)	\$ 2,671,775

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Depreciation expense for the fiscal year ended June 30, 2014, was charged to functions/programs of the Primary Government as follows (amounts expressed in thousands):

**Governmental activities**

Highways	\$ 273,438
Lower education	75,678
Urban redevelopment and housing	22,721
Public safety	18,863
General government	15,328
Conservation of natural resources	9,377
Welfare	7,869
Health	5,751
Economic development and assistance	4,511
Culture and recreation	1,928
	<hr/>
Total depreciation expense – governmental activities	\$ 435,464

**Business-type activities**

Airports	\$ 87,233
Harbors	23,495
EUTF	1,371
DWTLF	67
WPCF	11
	<hr/>
Total depreciation expense – business-type activities	\$ 112,177

**4. General Obligation Bonds Payable**

The State issues general obligation bonds primarily to provide for the acquisition and construction of major capital facilities. Although certain general obligation debt are being retired from the resources of the Proprietary Funds – Airports and Harbors and are recorded in those funds, all general obligation bonds are backed solely by the full faith and credit of the State.

All issues, except Series CM, issued December 1, 1996; Series CY, issued February 15, 2002; Series DL, issued May 20, 2008; Series DO and DP, issued December 16, 2008; Series DR, issued June 23, 2009; Series DT, issued November 24, 2009; Series DY, issued February 18, 2010; Series ED, issued December 7, 2011; and Series EI, EJ, EK and EL, issued November 21, 2013, contain call provisions. Stated interest rates range from 0.2% to 6.5%.

On November 21, 2013, the State issued \$635,000,000 of general obligation bonds of 2013 Series EH, \$171,060,000 of general obligation refunding bonds of 2013 Series EI, EJ, EK and EL, and \$54,795,000 of taxable general obligation bonds of 2013, Series EM and EN. The bonds were issued at a premium, which will be amortized over the life of the bonds using the effective interest rate method. Within the newly issued Series EH, EM and EN, the bonds that mature on or after August 1, 2023 are subject to optional redemption.

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Refunding Series EI, EJ, EK and EL have interest rates of 1.0% to 5.0% and were used to advance refund \$181,080,000 of certain general obligation bonds previously issued. The net proceeds of \$185,560,000 (including premiums of \$14,500,000) related to the issuance of Series EI, EJ, EK and EL were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the previously issued outstanding general obligation bonds series DA, DB, DD, DE and DF. As a result, these bonds are considered to be defeased, and the liability for these bonds has been removed from the government-wide financial statements. Due to the advanced refunding, the State decreased its total debt service payments over the next 10 years by \$21,770,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$20,155,000.

The State defeased general obligation bonds by placing the proceeds of new bonds in an irrevocable trust, to provide for all future debt service payments on the refunding bonds. Accordingly, the trust accounts and the refunded bonds are not included in the State's basic financial statements. At June 30, 2014, \$611,800,000 of bonds outstanding is considered defeased. At June 30, 2014, the general obligation bonds consisted of the following (amounts expressed in thousands):

Callable	\$ 4,857,075
Noncallable	<u>958,240</u>
Total general obligation bonds outstanding	5,815,315
Less: Amount recorded as a liability of proprietary funds – Harbors	<u>(31,176)</u>
Amount recorded in the governmental activities of the primary government	<u>\$ 5,784,139</u>

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A summary of general obligation bonds outstanding by series as of June 30, 2014, is as follows (amounts expressed in thousands):

<b>Series</b>	<b>Date of Issue</b>	<b>Interest Rates</b>	<b>Maturity Dates</b>	<b>Original Amount of Issue</b>	<b>Outstanding Amount</b>
CM	December 1, 1996	6.500%	December 1, 2014–2016	\$ 150,000	\$ 24,990
CY	February 15, 2002	5.750%	February 1, 2015	319,290	43,525
DE	November 10, 2004	3.500%–5.000%	October 1, 2014	225,000	12,105
DF	June 15, 2005	3.600%–5.000%	July 1, 2014–2025	225,000	52,300
DG	June 15, 2005	5.000%	July 1, 2014–2017	722,575	361,465
DI	March 23, 2006	3.900%–5.000%	March 1, 2015–2026	350,000	73,820
DJ	April 12, 2007	3.750%–5.000%	April 1, 2015–2027	350,000	220,575
DK	May 20, 2008	3.750%–5.000%	May 1, 2015–2028	375,000	321,440
DL	May 20, 2008	3.500%–5.000%	May 1, 2015–2018	29,010	17,410
DN	December 16, 2008	3.500%–5.500%	August 1, 2014–2028	100,000	92,070
DO	December 16, 2008	3.500%–5.000%	August 1, 2014–2018	101,825	67,545
DP	December 16, 2008	5.180%–5.680%	August 1, 2014–2016	26,000	13,960
DQ	June 23, 2009	3.600%–5.000%	June 1, 2015–2029	500,000	431,060
DR	June 23, 2009	3.000%–5.000%	June 1, 2015–2019	225,410	170,235
DS	November 5, 2009	0.200%–1.450%	September 15, 2014–2024	32,000	32,000
DT	November 24, 2009	2.250%–5.000%	November 1, 2014–2019	204,140	204,140
DX	February 18, 2010	3.000%–5.530%	February 1, 2015–2030	500,000	500,000
DY	February 18, 2010	3.000%–5.000%	February 1, 2015–2020	221,625	221,625
DZ	December 7, 2011	3.500%–5.000%	December 1, 2016–2031	800,000	800,000
EA	December 7, 2011	2.000%–5.000%	December 1, 2016–2023	403,455	403,455
ED	December 7, 2011	2.000%–5.000%	December 1, 2015	23,750	23,750
EE	December 4, 2012	1.000%–5.000%	November 1, 2017–2032	444,000	444,000
EF	December 4, 2012	5.000%	November 1, 2017–2024	396,990	396,990
EG	December 4, 2012	1.000%–3.625%	November 1, 2017–2032	26,000	26,000
EH	November 21, 2013	4.000%–5.000%	August 1, 2018–2033	635,000	635,000
EI	November 21, 2013	5.000%	August 1, 2014	34,515	34,515
EJ	November 21, 2013	3.000%–5.000%	August 1, 2015	58,355	58,355
EK	November 21, 2013	3.000%–5.000%	August 1, 2016	27,330	27,330
EL	November 21, 2013	1.000%–5.000%	August 1, 2017–2023	50,860	50,860
EM	November 21, 2013	1.950%–4.800%	August 1, 2018–2033	25,000	25,000
EN	November 21, 2013	1.950%–4.800%	August 1, 2018–2033	29,795	29,795
					<b>\$ 5,815,315</b>

The general obligation bonds outstanding financed the Hawaiian Home Lands Trust settlement and the acquisition, construction, extension or improvement of various public improvement projects, including public buildings and facilities, public schools, community college and university facilities, public libraries and parks, and for other public purposes.

A summary of the bond premium activities for fiscal year 2014 is as follows (amounts expressed in thousands):

<b>Balance – July 1, 2013</b>	<b>\$ 478,285</b>
GO bond series EH, EI, EJ, EK, EL, EM and EN	87,335
Defeased bond series DA, DB, DD, DE and DF	(11,026)
Current-year amortization	(61,943)
<b>Balance – June 30, 2014</b>	<b>\$ 492,651</b>

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A summary of debt service requirements to maturity on the governmental activities' general obligation bonds is as follows (amounts expressed in thousands):

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 412,126	\$ 278,170	\$ 690,296
2016	406,333	251,433	657,766
2017	425,552	232,191	657,743
2018	406,728	211,199	617,927
2019	412,607	193,395	606,002
2020–2024	1,675,574	711,098	2,386,672
2025–2029	1,376,599	333,700	1,710,299
2030–2034	668,620	63,349	731,969
	<u>\$ 5,784,139</u>	<u>\$ 2,274,535</u>	<u>\$ 8,058,674</u>

A summary of debt service requirements to maturity on the business-type activities' general obligation bonds are as follows (amounts expressed in thousands):

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 1,844	\$ 1,537	\$ 3,381
2016	1,932	1,449	3,381
2017	2,023	1,358	3,381
2018	2,122	1,258	3,380
2019	2,228	1,153	3,381
2020–2024	12,896	4,008	16,904
2025–2028	8,131	804	8,935
	<u>\$ 31,176</u>	<u>\$ 11,567</u>	<u>\$ 42,743</u>

The State Constitution limits the amount of general obligation bonds, which may be issued. As required by law, the Director of Finance has confirmed that the State was within its legal debt limit on the aforementioned issues. The legal debt margin at June 30, 2014 was \$414,066,000.

At June 30, 2014, general obligation bonds authorized but unissued were approximately \$1,679,933,000.

## **5. Revenue Bonds Payable**

### **Governmental Activities**

Revenue bonds are payable from and collateralized by each Departments' revenues generated from certain capital improvement projects. On December 15, 2011, Highways issued \$112,270,000 in State of Hawaii Highway Revenue Bonds of 2011, Series A, with interest rates ranging from 0.75% to 5.0% to finance certain highway capital improvement projects and related projects. The bonds are payable annually on January 1 through 2032.

On December 15, 2011, Highways issued \$5,095,000 in State of Hawaii Highway Revenue Bonds of 2011, Series B, with an interest rate of 4.0% to advance refund \$5,400,000 of certain outstanding highway revenue bonds previously issued. The bond is payable on January 1, 2023.



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On April 2, 2009, the State of Hawaii Department of Hawaiian Home Lands (DHHL) issued \$42,500,000 in Revenue Bonds, Series 2009, with interest rates ranging from 2.0% to 6.0% to finance the construction of certain DHHL capital improvement projects. The bonds are payable annually on April 1 through 2039.

On December 17, 2008, Highways issued \$125,175,000 in State of Hawaii Highway Revenue Bonds, Series 2008, with interest rates ranging from 4.0% to 6.0% to finance certain highway capital improvement projects and related projects. The bonds are payable annually on January 1 through 2029.

On March 15, 2005, Highways issued \$60,000,000 in State of Hawaii Highway Revenue Bonds of 2005, Series A, with interest rates ranging from 3.0% to 5.0% to finance certain highway capital improvement projects and related projects. The bonds are payable annually on July 1 through 2025.

On March 15, 2005, Highways issued \$123,915,000 of State of Hawaii Highway Revenue Bonds of 2005, Series B, with interest rates ranging from 3.0% to 5.25% to advance refund \$128,705,000 of certain outstanding highway revenue bonds previously issued. The bonds are payable annually on July 1 through 2021.

On July 1, 1998, Highways issued State of Hawaii Highway Revenue Bonds, Series of 1998, in the principal amount of \$94,920,000. Bond proceeds related to this issue amounted to \$97,542,000, of which \$71,921,000 was used to finance certain highway improvements and other related projects for the state highways system, and \$25,621,000 was used to advance refund certain outstanding highway revenue bonds. The difference in the principal amount and proceeds relates to bond premium and accrued interest. The bonds bear interest ranging from 4.5% to 5.5% and mature on July 1, 2017 and July 1, 2018.

The bonds are payable solely from and collateralized by the revenues, consisting primarily of highway fuel taxes, vehicle registration fees, vehicle weight taxes, and rental motor vehicle and tour vehicle surcharge taxes.

In addition to the proceeds from the State of Hawaii Highway Revenue Bonds of 2005, Series B; the proceeds of the State of Hawaii Highway Revenue Bond of 2011, Series B, State of Hawaii Highway Revenue Bonds, Series of 2003; and a portion of the proceeds of the State of Hawaii Highway Revenue Bonds, Series of 1998 (see above); were placed in irrevocable trusts and used to purchase securities of the U.S. government to meet the debt service requirements of the refunded bonds.

The liabilities for the refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements, as DHHL and Highways defeased their obligations for payment of those bonds upon completion of those refunding transactions.

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The following is a summary of Highways' and DHHL revenue bonds issued and outstanding at June 30, 2014 (amounts expressed in thousands):

<b>Series</b>	<b>Date of Issue</b>	<b>Interest Rates</b>	<b>Maturity Dates</b>	<b>Original Amount of Issue</b>	<b>Outstanding Amount</b>
<b>Highways</b>					
1998	July 1, 1998	5.50%	July 1, 2017-2018	\$ 94,920	\$ 27,580
2005 A	March 15, 2005	3.75%–5.00%	July 1, 2014–2025	60,000	41,630
2005 B	March 15, 2005	5.00%–5.25%	July 1, 2014–2021	123,915	90,205
2008	December 17, 2008	4.75%–6.00%	January 2, 2015–2029	125,175	104,545
2011 A	December 15, 2011	1.00%–5.00%	January 1, 2015–2032	112,270	104,595
2011 B	December 15, 2011	4.00%	January 1, 2023	5,095	5,095
<b>DHHL</b>					
2009	April 2, 2009	4.00%–6.00%	April 1, 2015–2039	42,500	39,075
					<u>\$ 412,725</u>

A summary of the revenue bond premium activities for fiscal year 2014 is as follows (amounts expressed in thousands):

	<b>Revenue Bonds</b>
<b>Balance – July 1, 2013</b>	\$ 18,017
Current-year amortization	<u>(2,545)</u>
<b>Balance – June 30, 2014</b>	<u>\$ 15,472</u>

Debt service requirements to maturity on revenue bonds are aggregated below (amounts expressed in thousands):

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 29,945	\$ 20,609	\$ 50,554
2016	31,390	19,148	50,538
2017	32,925	17,593	50,518
2018	34,530	15,922	50,452
2019	36,260	14,162	50,422
2020–2024	105,590	52,468	158,058
2025–2029	94,745	27,890	122,635
2030–2034	34,655	8,081	42,736
2035–2039	12,685	2,372	15,057
	<u>\$ 412,725</u>	<u>\$ 178,245</u>	<u>\$ 590,970</u>

**Business-Type Activities**

Revenue bonds are backed by a pledge of resources derived from users of the related facilities and are not supported by the full faith and credit of the State.

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***Airports System Revenue Bonds***

The Airports system revenue bonds are payable solely from and collateralized by airport revenues, which include all aviation fuel taxes levied. The Airports system revenue bonds are subject to redemption at the option of the Department of Transportation (DOT) and the State during specific years at prices ranging from 102% to 100% of principal.

The following is a summary of the Airports system revenue bonds issued and outstanding at June 30, 2014 (amounts expressed in thousands):

<b>Series</b>	<b>Interest Rates</b>	<b>Final Maturity Date (July 1)</b>	<b>Original Amount of Issue</b>	<b>Outstanding Amount</b>
2010A, refunding	2.00%–5.25%	2039	\$ 478,980	\$ 478,090
2010B, refunding	3.00%–5.00%	2020	166,000	135,750
2011, refunding	2.00%–5.00%	2024	300,885	263,885
			<u>\$ 945,865</u>	<u>877,725</u>
Add: Unamortized premium				19,233
				<u>896,958</u>
Less: Current portion				(34,210)
Noncurrent portion				<u>\$ 862,748</u>

***Airports Special Facility Revenue Bonds***

Airports entered into two special facility lease agreements with Continental Airlines, Inc. (Continental) in November 1997 and July 2000. The construction of the related facilities was financed by special facility revenue bonds issued by Airports in the amounts of \$25,255,000 and \$16,600,000, respectively. These bonds are payable solely from and collateralized solely by certain rentals and other monies derived from the special facilities and aggregated to \$29,130,000 at June 30, 2014.

The following is a summary of pertinent information on the Airports special facility revenue bonds at June 30, 2014:

***\$25,255,000 Issue***

The bonds bear interest at 5.625%, and are subject to redemption at the option of Airports upon the request of Continental at prices ranging from 101% to 100%, depending on the dates of redemption, or at 100% plus interest, if the facilities are destroyed or damaged extensively.

Interest-only payments are due semiannually on May 15 and November 15 of each year until the bonds mature on November 15, 2027, at which time the entire principal amount is due.

***\$16,600,000 Issue***

On July 15, 2000, Airports issued \$16,600,000 of term special facility bonds (Continental), Refunding Series of 2000, with an interest rate of 7%, due June 1, 2020, to, in part; refund \$18,225,000 of its outstanding Series of 1990 bonds (Continental). The bonds are subject to redemption on or after June 1, 2010, at the option of Airports, upon the request of Continental or, if the facilities are destroyed or damaged extensively, at 100% of principal, plus interest.

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Special facility revenue bonds payable at June 30, 2014, consisted of the following (amounts expressed in thousands):

	<b>Outstanding Amount</b>
Current portion	\$ 1,030
Noncurrent portion	28,100
	<b>\$ 29,130</b>

The special facility leases are accounted for and recorded as direct financing leases. The remaining lease payments to be paid by the lessees (including debt service requirements on the special facility revenue bonds) are recorded as a restricted asset, and the special facility revenue bonds outstanding are recorded as a liability in the accompanying basic financial statements.

***Harbors Revenue Bonds***

The Harbors revenue bonds are collateralized by a charge and lien on the gross revenues of the commercial harbors system and upon all improvements and betterments thereto, and all funds and securities created in whole or in part from revenues or from the proceeds of any bonds issued. The Harbors revenue bonds are subject to redemption at the option of the DOT and the State during specific years at prices at 100% of face value.

The following is a summary of the Harbors' revenue bonds issued and outstanding as of June 30, 2014 (amounts expressed in thousands):

Year of Issue	Final Redemption Date	Interest Rates	Original Amount of Issue	Current		Total	Noncurrent
				Principal Due July 1, 2014	Due January 1, 2015		
2004	January 1, 2024	2.50%–6.00%	\$ 52,030	\$ -	\$ 1,505	\$ 1,505	\$ 17,775
2006	January 1, 2031	4.00%–5.25%	96,570	-	2,930	2,930	74,710
2007	July 1, 2027	4.25%–5.50%	51,645	1,920	-	1,920	36,000
2010	July 1, 2040	3.00%–5.75%	201,390	6,315	-	6,315	186,620
2013	July 1, 2029	3.25%	23,615	835	-	835	22,435
			<b>\$ 425,250</b>	<b>\$ 9,070</b>	<b>\$ 4,435</b>	<b>13,505</b>	<b>337,540</b>
Add: Unamortized premium						<b>329</b>	<b>675</b>
						<b>\$ 13,834</b>	<b>\$ 338,215</b>

On August 2, 2013, Harbors issued \$23,615,000 Series A of 2013 revenue refunding bonds through a private placement transaction with Capital One Public Funding LLC. These bonds refunded the Series A of 2000 and Series B of 2002 revenue bonds. This bond refunding provided net present value savings of approximately \$3,940,000 as measured from the closing date at a fixed coupon rate of 3.25%.

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Debt service requirements to maturity on the business-type activities' revenue bonds for fiscal years ending June 30 are aggregated below (amounts expressed in thousands):

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 48,745	\$ 62,096	\$ 110,841
2016	51,005	59,758	110,763
2017	53,340	57,376	110,716
2018	55,825	54,895	110,720
2019	58,495	52,197	110,692
2020–2024	325,850	216,328	542,178
2025–2029	228,235	141,493	369,728
2030–2034	173,190	90,245	263,435
2035–2039	204,585	42,746	247,331
2040–2041	58,630	2,164	60,794
	<u>\$ 1,257,900</u>	<u>\$ 779,298</u>	<u>\$ 2,037,198</u>

The above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12- and 6-month periods, respectively, preceding the date on which the payments are due.

**Revenue Bonds Authorized, but Unissued**

At June 30, 2014, revenue bonds authorized, but unissued, were approximately \$4,674,426,000.

**Special Purpose Revenue Bonds**

HRS Chapter 39A authorizes the State (with legislative approval) to issue special purpose revenue bonds. Proceeds from those bonds are loaned to certain enterprises for projects deemed to be in the public interest. The bonds are not general obligations of the State and are payable solely from monies received by the State under project agreements with the recipients of the bond proceeds. Accordingly, the State has not included those bonds in its basic financial statements. Bonds outstanding at June 30, 2014 amounted to approximately \$1,284,898,000. At June 30, 2014, special purpose revenue bonds of \$1,322,320,000 were authorized, but unissued.

**Improvement District Bonds**

The HCDA is authorized to issue improvement district bonds under HRS Chapter 206E. Proceeds from the bond issues are utilized to finance the redevelopment of districts designated by the State Legislature. The bonds are not general obligations of the State and are payable solely by assessment liens on the real property of the designated district. Accordingly, the State has not included those bonds in its basic financial statements. There were no bonds outstanding as of June 30, 2014.

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**6. Changes in Long-Term Liabilities**

Changes in the long-term liabilities for the primary government (governmental activities and business-type activities) were as follows (amounts expressed in thousands):

	<b>Governmental Activities</b>				
	<b>Balance July 1, 2013</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2014</b>	<b>Due Within One Year</b>
General obligation bonds payable	\$ 5,534,921	\$ 860,855	\$ (611,637)	\$ 5,784,139	\$ 412,126
Revenue bonds payable	441,150	-	(28,425)	412,725	29,945
Add: Unamortized premium	496,302	87,335	(75,514)	508,123	64,481
Total bonds payable	6,472,373	948,190	(715,576)	6,704,987	506,552
Accrued vacation payable	220,773	96,334	(90,309)	226,798	79,405
Reserve for losses and loss adjustment costs	155,138	36,643	(44,661)	147,120	23,880
Other postemployment benefits liability	3,066,452	561,744	(300,883)	3,327,313	-
Capital lease obligations	89,879	18,835	(6,092)	102,622	6,447
Total	\$ 10,004,615	\$ 1,661,746	\$ (1,157,521)	\$ 10,508,840	\$ 616,284

	<b>Business-type Activities</b>				
	<b>Balance July 1, 2013 As Restated</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2014</b>	<b>Due Within One Year</b>
General obligation bonds payable, net	\$ 32,934	\$ -	\$ (1,758)	\$ 31,176	\$ 1,844
Revenue bonds payable	1,312,025	23,615	(77,740)	1,257,900	48,745
Add: Unamortized premium, net	25,038	-	(4,801)	20,237	329
Total bonds payable	1,369,997	23,615	(84,299)	1,309,313	50,918
Accrued vacation and retirement benefits payable	12,479	6,667	(6,042)	13,104	4,120
Reserve for losses and loss adjustment costs	4,815	1,734	(1,720)	4,829	1,040
Other postemployment benefits liability	68,424	19,840	(6,734)	81,530	-
Lease revenue certificates of participation	-	174,649	(878)	173,771	-
Prepaid airport use charge fund	40,797	6,387	(19,000)	28,184	1,092
Customer advances	953	-	(953)	-	-
Total	\$ 1,497,465	\$ 232,892	\$ (119,626)	\$ 1,610,731	\$ 57,170

The accrued vacation liability attributable to the governmental activities will be liquidated by the State's governmental funds. Approximately 79%, 20% and 1% of the accrued vacation liability has been paid by the General Fund, Special Revenue Funds and Capital Projects Fund, respectively, during the fiscal year ended June 30, 2014.

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**Notes to Basic Financial Statements**  
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**7. Interfund Receivables and Payables**

Interfund receivables and payables consisted of the following at June 30, 2014 (amounts expressed in thousands):

	<u>Due From</u>	<u>Due To</u>
<b>Governmental funds</b>		
General Fund		
Special Revenue Funds	\$ 27,644	\$ -
Capital Projects Fund	89,900	-
Med-Quest Special Revenue Fund	95,519	-
Proprietary Fund	20	-
Debt Service Fund	-	35
	<u>213,083</u>	<u>35</u>
Capital Projects Fund		
General Fund	-	89,900
Special Revenue Funds	-	2,000
Proprietary Fund	1,597	-
	<u>1,597</u>	<u>91,900</u>
Med-Quest Special Revenue Fund		
General Fund	-	95,519
Nonmajor Governmental Funds		
General Fund	35	27,644
Capital Projects Fund	2,000	-
	<u>2,035</u>	<u>27,644</u>
<b>Proprietary Fund</b>		
Harbors	-	1,617
	<u>\$ 216,715</u>	<u>\$ 216,715</u>

The due from Capital Projects Fund in the General Fund consists primarily of funds transferred prior to the issuance of bonds. Remaining interfund balances result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded, and payment between funds are made.

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**8. Transfers**

Transfers between funds occur when a fund receiving revenues, transfers resources to a fund where the resources are to be expended, or when nonrecurring or nonroutine transfers between funds occur. For the fiscal year ended June 30, 2014, transfers by fund were as follows (amounts expressed in thousands):

	<u>Transfers In</u>	<u>Transfers Out</u>
<b>Governmental Funds</b>		
General Fund – Nonmajor Governmental Funds	\$ 65,648	\$ 818,488
Capital Projects Fund – Nonmajor Governmental Funds	80,046	32,560
Med-Quest Special Revenue Fund		
General Fund	11,591	10,693
Nonmajor Governmental Funds	781	2,004
	<u>12,372</u>	<u>12,697</u>
Nonmajor Governmental Funds		
General Fund	806,897	54,955
Capital Projects Fund	32,560	80,046
Med-Quest Special Revenue Fund	2,003	781
Other Nonmajor Governmental Funds	67,254	67,253
	<u>908,714</u>	<u>203,035</u>
	<u>\$ 1,066,780</u>	<u>\$ 1,066,780</u>

The General Fund transferred approximately \$681,993,000 to the Nonmajor Governmental Funds for debt service payments and approximately \$55,277,000 to subsidize various Special Revenue Funds' programs. Approximately \$80,046,000 of Highways receipts were transferred from the Nonmajor Governmental Funds to the Capital Projects Fund to finance capital projects.

**9. Leases**

**Lease Commitments**

**Governmental Activities**

The State leases office facilities and equipment under various operating leases expiring through fiscal 2024. Future minimum lease commitments for noncancelable operating leases as of June 30, 2014, were as follows (amounts expressed in thousands):

<b>Fiscal Year</b>	
2015	\$ 15,786
2016	11,737
2017	8,703
2018	6,010
2019	4,157
2020–2024	<u>5,539</u>
Total future minimum lease payments	<u>\$ 51,932</u>



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Rent expenditures for operating leases for the fiscal year ended June 30, 2014 amounted to approximately \$35,015,000.

An equipment lease purchase agreement between DAGS and Banc of America Public Capital Corp. was entered into on August 1, 2013, to fund the construction, acquisition and installation of energy conservation systems throughout the State. The proceeds of \$18,835,000 were deposited in an acquisition fund held in trust by an acquisition fund custodian to provide for future payments as requested by the State. Payments commenced on March 20, 2014 and continue through September 20, 2033 at an interest rate of 3.63%.

On April 14, 2011, an equipment lease purchase agreement between the Department of Public Safety and Capital One Public Funding, LLC was entered into, to fund the acquisition and installation of energy conservation equipment at the Halawa Correctional Facility and Oahu Community Correctional Center. An escrow agent to provide for future vendor payments as requested by the State deposited the proceeds of \$25,512,000 in an escrow fund. Payments commenced on May 1, 2012 and continue through November 1, 2030 at an interest rate of 5.021%.

An equipment lease purchase agreement between the Department of Accounting and General Services and Capital One Public Funding, LLC was entered into on September 3, 2009, to fund the acquisition and installation of energy conservation equipment at various State buildings in the downtown Honolulu district. The proceeds of \$12,377,000 were deposited in an escrow fund by an escrow agent to provide for future vendor payments as requested by the State. Payments commenced on June 1, 2010 and continue through June 1, 2026 at an interest rate of 5.389%.

The State issued \$41,120,000 in Certificates of Participation (COPS) 2009 Series A, on November 5, 2009, to fully refund \$47,185,000 of the 1998 Series A Certificates and the 2000 Series A Certificates which proceeds were used to purchase the Kapolei State Office Building and the Capitol District Building. The net proceeds of \$43,490,000 (including a premium of \$2,876,000 and after payment of \$503,000 in underwriting fees) were deposited to the Depository Trust Company in an irrevocable trust with an escrow agent to provide for all future debt service payments on the previously issued outstanding COPS. As a result, these bonds are considered to be defeased, and the liability for these bonds has been removed from the Government-Wide financial statements. Due to the advance refunding, the State reduced its total debt service payments over the next 10 years by \$7,487,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$7,061,000. Payments commenced on May 1, 2010, and continue through May 1, 2020 with interest rates ranging from 2.0% to 5.0%. The 2009 Series A Certificates are subject to prepayment prior to their maturity dates in the event of a casualty loss or governmental taking of all or a portion of the premises subject to the Leases, but are not otherwise subject to prepayment prior to maturity.

In November 2006, the State issued \$24,500,000 in COPS to finance the construction of the Kapolei Office and Conference Facility. The proceeds of the COPS were remitted to a trustee, who will then remit the amounts to the developer as construction progresses. The holders of the COPS are the current owners of the Kapolei Office and Conference Facility. Accordingly, the State's rental payments for the use of the Kapolei Office and Conference Facility are paid to a trustee, who then remits those amounts to the holders of the COPS. Payments commenced on May 1, 2007, and continue through November 1, 2031, with interest rates ranging from 3.63% to 5%. Title to the Kapolei Office and Conference Facility will transfer to the State upon the payment of all required rents.

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Future minimum lease payments for these capital leases are as follows (amounts expressed in thousands):

<b>Fiscal Year</b>	
2015	\$ 11,247
2016	11,766
2017	12,098
2018	12,543
2019	8,460
2020–2024	37,186
2025–2029	33,179
2030–2034	<u>18,810</u>
Total future minimum lease payments	145,289
Less: Amount representing interest	<u>(42,667)</u>
Present value of net minimum lease payments	102,622
Less: Current portion	<u>(6,447)</u>
Noncurrent portion	<u>\$ 96,175</u>

Capital assets acquired under these capital leases are as follows (amounts in thousands):

<b>Asset type</b>	
Buildings and improvements	\$ 65,620
Equipment	<u>56,724</u>
Total assets	<u>\$ 122,344</u>

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***Business-Type Activities***

***Airports – Lease Revenue Certificates of Participation***

Airports entered into a lease agreement with Johnson Controls, Inc. in December 2013. The costs relating to the lease and installation of certain equipment to implement the energy performance contract between Airports and Johnson Controls, Inc. was financed by lease revenue COPs issued by Airports in the amount of \$167,740,000 at interest rates ranging from 3.00% to 5.25%. These lease revenue COPs are payable from revenues derived by Airports from the ownership and operation of the Airports system and the receipts from aviation fuel taxes imposed by the State. At June 30, 2014, the outstanding balance of the lease revenue COPs and the unamortized premium were \$167,740,000 and \$6,031,000, respectively. Future lease rent payments for the lease revenues COPs as of June 30, 2014 were as follows (amounts expressed in thousands):

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ -	\$ 9,316	\$ 9,316
2016	-	8,343	8,343
2017	4,745	8,272	13,017
2018	5,675	8,059	13,734
2019	6,490	7,787	14,277
2020–2024	52,615	32,413	85,028
2025–2029	98,215	13,557	111,772
	<u>\$ 167,740</u>	<u>\$ 87,747</u>	<u>\$ 255,487</u>

**Lease Rentals**

***Airports — Airport-Airline Lease Agreement***

The DOT and the airline companies serving the Airports system (signatory airlines) operated pursuant to an airport-airline lease agreement that was originally set to expire on July 31, 1992. Under the lease agreement, the signatory airlines each have the nonexclusive right to use the facilities, equipment, improvements and services of the Airports system and to occupy certain premises and facilities thereon. The lease agreement was extended under a series of five subsequent agreements, the last of which was executed in June 1994, and extended the expiration date to June 30, 1997 (hereafter the lease agreement and the five subsequent agreements are collectively referred to as the “lease extension agreement”). The lease extension agreement contains a provision under which the expiration date is automatically extended on a quarterly basis after June 30, 1997, unless terminated by either party upon at least 60 days prior written notice. In October 2007, the DOT and a majority of the signatory airlines executed the first amended lease extension agreement effective January 1, 2008.

Under the first amended lease extension agreement, the Airports system rates and charges are calculated using a rate-making methodology that recovers costs of specific airport system facilities from the signatory airlines that directly use them. The Airports system rates and charges consist of the following: (1) exclusive-use terminal charges based on a cost center residual rate-setting methodology and recovered on a per-square-foot basis, (2) joint-use premises charges (for nonexclusive use of terminal space, except for commuter terminal space) based on a cost center residual rate-setting methodology and recovered on a per enplaning or deplaning passenger basis, (3) commuter terminal charges based on appraisal and recovered on a per enplaning passenger basis, (4) international arrivals building charges based on a cost center residual rate-setting methodology and recovered on a per deplaning international passenger basis, (5) landing fees based on a cost center residual rate-setting methodology and recovered on a revenue landing

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landed weight basis (per 1,000-pound units), and (6) system support charges based on an Airports system residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units).

***Airports — Prepaid Airport Use Charge Fund***

The DOT and the signatory airlines entered into an agreement in August 1995 to extend the prepaid airport use charge fund (PAUCF). Net excess payments for fiscal 1996 through 2012 have been transferred to the PAUCF.

***Airports — Aviation Fuel Tax***

In May 1996, the Department of Taxation issued a tax information release which stated that, effective July 1, 1996, the Hawaii fuel tax will not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination. The aviation fuel tax amounted to approximately \$4,847,000 for fiscal year 2014.

***Airports — System Rates and Charges***

Signatory and nonsignatory airlines were assessed the following rates and charges:

- Landing fees amounted to approximately \$56,904,000 for fiscal year 2014. Airport landing fees are shown net of aviation fuel tax credits of \$3,974,000 for fiscal year 2014, on the statement of revenues, expenses and changes in net position, which resulted in net airport landing fees of \$52,930,000 for fiscal year 2014. Airport landing fees are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The Airports interisland landing fees for signatory airlines were set at 42% of the Airports landing fees for overseas flights for 2014 and are scheduled to increase 1% annually until it reaches 100%.
- Nonexclusive joint-use premise charges for terminal rentals amounted to approximately \$53,857,000 for fiscal year 2014. Overseas and interisland joint-use premise charges were established to recover Airports system costs allocable to the overseas and interisland terminals joint-use space based on terminal rental rates, and are recovered based on a computed rate per enplaning or deplaning passenger.
- Exclusive use premise charges amounted to approximately \$40,039,000 for fiscal year 2014, and were computed using a fixed rate per square footage. Exclusive use premise charges for terminal rentals amounted to approximately \$20,452,000 for fiscal year 2014.

***Airports — Other Operating Leases***

Airports leases building spaces and improvements to concessionaires, airline carriers, and other airport users. The terms of those leases range from 4 to 15 years for concessionaires and up to 65 years for other airport users. Concessionaire lease rentals are generally based on the greater of a percentage of sales or a minimum guarantee. Percentage rent included in concession fees revenues for the fiscal year ended June 30, 2014 was approximately \$31,693,000.

In fiscal years 2006 and 2013, Airports converted certain past-due amounts from two lessees and a lessee, respectively, into promissory notes. The notes bear interest at rates ranging up to 5.0%, and are due over periods ranging up to nine years. The balance of \$152,000 at June 30, 2014 is due as follows: \$61,000 in 2015, \$8,000 in 2016, \$8,000 in 2017, and \$75,000 thereafter.

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Concession fees revenues from the DFS Group L.P. (DFS), which operates the in-bond (duty free) concession, the Honolulu International Airport retail concession, and the Kahului retail concession, accounted for approximately 24% of total concession fees revenues for the fiscal year ended June 30, 2014.

DFS was awarded a 10-year lease agreement for the in-bond concessions with the term commencing on June 1, 2007, and terminating on May 31, 2017. On August 31, 2010, the lease was amended under provisions of Act 33, 2009, Hawaii Session Laws 883. The amended lease contract provides for a minimum annual guarantee rent, as well as percentage rent on annual gross receipts exceeding certain levels. For the period from June 1, 2007 to May 31, 2011, the minimum annual guarantee rent was \$38 million and the percentage rent was as follows: (1) for total concession receipts greater than \$155 million, but less than \$195 million, 22.5% for on-airport sales, and 18.5% for off-airport sales; (2) for total concession receipts greater than \$195 million, but less than \$235 million, 30.0% for on-airport sales and 22.5% off-airport sales; (3) for total concession receipts greater than \$235 million, but less than \$275 million, 30.0% for on-airport sales, and 26.5% for off-airport sales; and (4) for total concession receipts greater than \$275 million 30.0% for on-airport sales and off-airport sales. For the period from June 1, 2011 to May 31, 2017, the minimum annual guarantee rent is equal to 85% of the total rent paid for the fourth year of the lease term. Percentage rent during this period is calculated the same as during the first four years of the lease term.

In March 2009, DFS was awarded a five-year lease agreement for the retail concession at the Honolulu International Airport, with the term commencing on April 1, 2009, and scheduled to terminate on March 14, 2014. Rents were computed as the higher of (1) percentage rent of 20% of gross receipts and (2) minimum annual guarantee rent (85% of the actual annual fee paid for the preceding year). The lease agreement was extended for a holdover period through March 31, 2015. During the holdover period the minimum annual guarantee rent is \$12,000,000. Subsequently, on October 31, 2014, the lease agreement was amended to extend the term through March 31, 2025. The amendment provided that the minimum annual guarantee rent for the period April 1, 2015 through March 31, 2016 be \$12,000,000 and for each subsequent year, the minimum annual guarantee rent will be 85% of the actual annual fee paid for the preceding year.

***Harbors — Aloha Tower Complex Development***

The Aloha Tower Development Corporation (ATDC) is a state agency established under HRS Chapter 206J, primarily to redevelop the Aloha Tower complex. The complex encompasses Piers 5 to 23 of Honolulu Harbor. In September 1993, Harbors entered into a lease with the ATDC transferring to the ATDC portions of the Aloha Tower complex. The ATDC is required annually to reimburse Harbors for any losses in revenues during the term of the lease caused by any action of the ATDC or the developer, and to provide replacement facilities for maritime activities at no cost to Harbors.

In September 1993, the ATDC subleased lands surrounded by Piers 8 and 9 and a portion of land surrounded by Pier 10 to a developer, and the developer and Harbors entered into a capital improvements, maintenance, operations and securities agreement (Operations Agreement). The Operations Agreement allows Harbors to operate the harbor facilities at Piers 8, 9 and 10. The lease between the ATDC and the developer requires the developer to construct, at the developer's cost, various facilities, including a marketplace.

The developer later went into bankruptcy. The subsequent operator of the marketplace assumed the obligations of the sublease and the Operations Agreement in March 1998. This replacement operator has also gone through a bankruptcy proceeding and there is a new operator who has assumed the same obligations. Although the marketplace construction was substantially completed, several items on Harbors' construction punchlist have yet to be completed and

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were pursued with the new operator. A settlement has been reached with the new operator to satisfy the punchlist obligations, which have a total value of \$3,500,000, depending upon when actual payments are made by the operator within a six-year timeframe.

An amendment of the lease executed in fiscal 2006 altered the obligations of the ATDC to reimburse Harbors on an annual basis. For the fiscal year commencing July 1, 2004, the amendment provides that the ATDC shall pay \$225,000 as a minimum annual base payment. The amendment further provides that for the fiscal year commencing July 1, 2005 onward, for any year in which the ATDC shall pay for all or any portion of the cost of personnel and other expenses relating to the Hawaii Harbors Project, the parties agree that the minimum annual base payment shall be commensurately reduced by such payments.

In addition to the minimum annual base payment, the ATDC shall also pay an amount equal to 50% of the difference between the total revenues received by the ATDC for such fiscal year and the operating expenses of the ATDC for such fiscal year (equity payment) to reduce the amount owed to Harbors for losses in revenues by the ATDC prior to July 1, 2004. The amendment provides for an increase in the equity participation payment as the ATDC's revenues increase. The balance owed to the Harbors Division by ATDC as of June 30, 2014 was approximately \$3,761,000.

At its meeting on July 13, 2011, the ATDC Board approved the transfer of the leasehold interest for the Aloha Tower Marketplace to a private operator.

Subsequent to the year ended June 30, 2014, the State, by its Interim Director of the DOT, entered into a successor memorandum of understanding with the ATDC and Hawaii Lifestyle Retail Properties (HLRP) whereby ATDC agreed to abate rent under the lease between ATDC and HLRP for the period retroactive to July 1, 2014 to June 30, 2015 in consideration for the construction of HLRP improvements to create student and faculty residences and various university spaces for Hawaii Pacific University and to memorialize the understanding of the parties with respect to various aspects of its agreement.

\$1,000,000 in rent has been abated for fiscal year July 1, 2014 to June 30, 2015. As ATDC will not be receiving any revenues during this period, it will not be making an equity participation payment to the Harbors Division in an amount of 50% of the difference between the total revenues and total operating expense of ATDC for fiscal year, representing a loss of approximately \$388,000 of the Harbors Division in fiscal year 2015.

The successor memorandum of understanding also amended the punchlist obligations owed to the Harbors Division which had a total value of \$3,500,000, depending upon when actual payments are made by the operator within a six-year timeframe ending June 2016. The amendment provided that in consideration of ATDC's issuance of any renewed leases, HLRP shall pay the Harbors Division the sum of \$1,750,000 on or before December 31, 2021.

#### ***Harbors — Leasing Operations***

Harbors leases land, wharf and building spaces under month-to-month revocable permits and long-term leases. The long-term leases expire during various years through September 2058. Those leases generally call for rental increases every 5 to 10 years based on a step-up or independent appraisals of the fair rental value of the leased property.

Revenues for the fiscal year ended June 30, 2014 amounted to \$26,720,000 and have been included in rental revenues.

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The following schedule presents the approximate future minimum lease rentals under noncancelable operating leases of the Proprietary Funds as of June 30, 2014 (amounts expressed in thousands):

Fiscal Year	Proprietary Funds		
	Airports	Harbors	Total
2015	\$ 118,761	\$ 7,615	\$ 126,376
2016	66,984	7,376	74,360
2017	57,935	5,957	63,892
2018	24,533	5,671	30,204
2019	21,779	5,120	26,899
2020–2024	42,652	25,680	68,332
2025–2029	24,871	24,771	49,642
2030–2034	11,652	21,472	33,124
2035–2039	10,532	13,741	24,273
2040–2044	9,831	10,585	20,416
2045–2049	-	4,695	4,695
2050–2054	-	2,611	2,611
2055–2059	-	1,957	1,957
	<u>\$ 389,530</u>	<u>\$ 137,251</u>	<u>\$ 526,781</u>

***Net Investment in Direct Financing Leases***

Certain leases of state-owned special facilities to parties engaged in airline operations are accounted for as direct financing leases. At June 30, 2014, net investments in direct financing leases of Airports consisted of the following (amounts expressed in thousands):

Total minimum lease payments receivable	\$ 44,143
Less: Amount representing interest	<u>(18,217)</u>
	25,926
Cash with trustee and other	<u>3,400</u>
	<u>\$ 29,326</u>

Minimum future rentals to be received under direct financing leases of Airports as of June 30, 2014, consisted of the following (amounts expressed in thousands):

<b>Fiscal Year</b>	
2015	\$ 2,770
2016	2,778
2017	2,776
2018	2,788
2019	2,778
2020–2024	7,651
2025–2028	<u>26,002</u>
	<u>\$ 47,543</u>

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**10. Significant Transactions With Component Units**

**Hawaii Housing Finance and Development Corporation**

Amounts payable from the State to the HHFDC include approximately \$505,000 of miscellaneous advances previously made to other departments and approximately \$10,543,000 of amounts due from DHHL related to a previous agreement to transfer certain land and development rights to the State. Pursuant to this agreement, the State was required to commence 15 annual \$2,200,000 payments to the HHFDC in December 2004. Effective at that time, the HHFDC recorded the sale of the land and development rights and the net present value of the estimated future cash flows from the State using an imputed interest rate. The agreement was amended to reduce the annual payments to \$1,700,000.

**Hawaii Health Systems Corporation**

In fiscal year 2003, HHSC received a \$14,000,000 advance from the State to relieve its cash flow shortfall. At June 30, 2014, the full amount was not yet repaid to the State. The amount due to the State of \$36,123,000 at June 30, 2014 includes the \$14,000,000 advance plus \$20,123,000 of cash advances that was assumed by HHSC. HHSC also received \$4,500,000 in advances from the State of which \$2,500,000 was repaid in fiscal year 2014 and \$2,000,000 is due in fiscal year 2015.

**Hawaii Tourism Authority**

During the period from October 1992 through April 1998, the State issued a series of general obligation bonds whose proceeds were used to fund the construction of the Center. These bonds are obligations of the State and are secured by the State's full faith and credit. The debt service for the general obligation bonds is to be primarily funded by an allocated portion of the State's transient accommodations tax (TAT) revenue and revenue generated from the operation of the Center. Through June 30, 2000 and from July 1, 2000 to June 30, 2002, these funds were collected and accounted for by the CCA and Budget and Finance, respectively.

Effective July 1, 2002, the Convention Center Fund was established by Act 253, SLH of 2002. In accordance with Act 253, the Convention Center Fund was placed within HTA and was created to receive all revenues generated from the Center's operations and an allocated portion of the revenues received from the State's TAT. Act 253 further states that all funds collected by the Convention Center Fund are to be used to pay all expenses arising from the use and operation of the Center and to pay any and all debt service relating to the Center. However, responsibility for debt service payments to the bondholders on the general obligation bonds referred to above remains with the State through Budget and Finance.



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The creation of the Convention Center Fund provided HTA the ability to reimburse Budget and Finance for debt service payments in accordance with a predetermined payment plan, which had been assigned to HTA by the CCA. The terms of the payment plan require HTA to reimburse Budget and Finance for principal and interest payments at an imputed interest rate of 6% through January 1, 2027. HTA's ability to meet its obligations in accordance with the payment plan is dependent upon the funds received by the Convention Center Fund. At June 30, 2014, the outstanding principal and aggregate interest amounts required to be reimbursed by HTA were \$221,125,000 and \$122,452,000, respectively. The scheduled payments to maturity for each of the next five years and thereafter in five-year increments are as follows (amounts expressed in thousands):

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 13,920	\$ 12,506	\$ 26,426
2016	14,755	11,671	26,426
2017	15,645	10,786	26,431
2018	16,580	9,847	26,427
2019	17,575	8,852	26,427
2020–2024	105,025	27,118	132,143
2025–2028	37,625	41,672	79,297
	<u>\$ 221,125</u>	<u>\$ 122,452</u>	<u>\$ 343,577</u>

For the year ended June 30, 2014, HTA was required to reimburse Budget and Finance approximately \$26,400,000 for principal and interest.

**Hawaii Hurricane Relief Fund**

In 2002, Act 179, SLH of 2002, provided that all interest and dividends earned from the principal in the hurricane reserve trust fund be transferred and deposited into the State General Fund each year that the hurricane reserve trust fund remains in existence, beginning with fiscal year 2003. For the year ended June 30, 2014, interest and dividends earned and earmarked for transfer into the State General Fund amounted to \$1,540,000.

In 2011, Act 62, SLH of 2011 appropriated \$42,000,000 from the HHRF into the General Fund to help balance the State's fiscal year 2011 budget. The law authorized the Governor to appropriate additional monies from HHRF, as necessary, to balance the fiscal year 2011 State Budget. In that regard, HHRF pledged to transfer an additional \$69,000,000 to the General Fund as of June 30, 2011 and made the transfer in July 2011.

The transfers to the General Fund reduced the balance of HHRF to levels below what would be adequate to buy reinsurance in the event of a hurricane. However, Act 62 established a mechanism to replenish the HHRF from fiscal years 2014 and 2015 general excise tax revenues and authorizes HHRF to issue \$75,000,000 in revenue bonds through June 30, 2015. HHRF has not issued any revenue bonds as of June 30, 2014.

In 2013, Act 266, SLH of 2013 appropriated \$55,500,000 from general excise tax revenues for fiscal years 2014 and 2015 to be deposited into the HHRF. The fiscal years 2014 and 2015 transfers were made in September 2013 and 2014, respectively. Act 266 authorized to further accelerate recapitalization of fiscal reserves, by transferring an additional \$50,000,000 to HHRF, which was made in November 2013.

**11. Retirement Benefits**

**Employees' Retirement System**

***Plan Description***

All eligible employees of the State and counties are required by HRS Chapter 88 to become members of the ERS, a cost-sharing multiple-employer defined benefit public employee retirement plan. The ERS provides retirement benefits, as well as death and disability benefits. The ERS is governed by a Board of Trustees. All contributions, benefits and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues a comprehensive annual financial report that is available to the public. That report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813, or through the ERS's website: [ers.hawaii.gov](http://ers.hawaii.gov).

Prior to June 30, 1984, the plan consisted of only a contributory plan. In 1984, legislation was enacted to add a new noncontributory plan for members of the ERS who are also covered under Social Security. Police officers, firefighters, judges, elected officials and persons employed in positions not covered by Social Security are precluded from the noncontributory plan. The noncontributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory plan or to elect the new noncontributory plan and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory plans, respectively.

Both plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment.

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan. Almost 58,000 current members, all members of the noncontributory plan and certain members of the contributory plan were eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006, were required to join the hybrid plan.

Effective July 1, 2012, the hybrid contributory plan was revised by Act 163, SLH of 2011. Members joining the hybrid plan on or after that date are eligible for retirement at age 65 with 10 years of credited service or age 60 with 30 years of credited service. Members will receive a benefit multiplier of 1.75% for each year of credited service in the hybrid plan. The benefit options remain similar to the current contributory plan.

***Funding Policy***

Covered employees of the contributory plan who became members on or before June 30, 2012 are required to contribute 7.8% of their salary. Police officers, firefighters, investigators of the departments of the County Prosecuting Attorney and the Attorney General, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2% of their salary. Covered employees of the hybrid plan who became members on or before June 30, 2012 are required to contribute 6% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005,

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employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

The State's contribution requirements as of June 30, 2014, 2013 and 2012 were approximately \$463,832,000, \$418,415,000 and \$396,380,000, respectively. The State contributed 90.9%, 87.4% and 84.8% of its required contribution for those years, respectively. Covered payroll for the fiscal year ended June 30, 2014 was approximately \$2,891,989,000.

#### **Post-Retirement Health Care and Life Insurance Benefits**

##### ***Plan Descriptions***

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH of 2001, the State contributes to the EUTF, an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees and their dependents. The EUTF issues an annual financial report that is available to the public. That report may be obtained by writing to the EUTF at PO Box 2121, Honolulu, Hawaii 96805-2121.

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with 10 years or more of credited service, and 50% of the base monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect a family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

##### ***Cost***

Effective July 1, 2006, the State implemented GASB Statement No. 43 (GASB 43), *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. GASB 43 establishes accounting and financial reporting standards for plans that provide other postemployment benefits (OPEB) other than pensions. GASB 43 requires defined benefit OPEB plans that are administered as trust or equivalent arrangements to prepare a statement of plan assets and a statement of changes in plan assets.

The reporting of active and retiree (including their respective beneficiaries) healthcare benefits provided through the same plan should separate those benefits for accounting purposes between active and retiree healthcare benefits. Accordingly, the State reports the retiree healthcare benefits as OPEB in conformity with GASB 43 and the active employee healthcare benefits as risk financing

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in conformity with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended.

The State is required by GASB Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to obtain an actuarial valuation every other year. Therefore, an actuarial valuation was performed as of July 1, 2013.

The State's base contribution levels to EUTF are established by statutes and the retiree is responsible to pay the difference if the base contribution is less than the cost of the monthly premium.

Prior to fiscal year 2014, the State's base contribution levels were tied to the pay-as-you-go amounts necessary to provide current benefits to retirees. In fiscal year 2014, the State contributed \$100,000,000 in addition to amounts necessary to provide current benefits to retirees.

The State's annual OPEB cost for each plan was calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters in GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the annual OPEB cost, contributions made, the net OPEB liability, and the funding status for the EUTF and UH for each of the plans for the fiscal year ended June 30, 2014 (amounts expressed in thousands):

	<b>EUTF</b>	<b>UH</b>
Annual required contribution	\$ 594,289	\$ 98,333
Interest on net OPEB obligation	239,460	36,005
Adjustment to annual required contribution	(182,931)	(27,506)
Annual OPEB cost	650,818	106,832
Contributions made	(338,200)	(42,000)
Increase in net OPEB obligation	312,618	64,832
<b>Net OPEB obligation</b>		
Beginning of year	3,420,854	514,364
End of year	\$ 3,733,472	\$ 579,196
Actuarial accrued liability (AAL) July 1, 2013	\$ 7,343,756	\$ 1,185,790
Funded OPEB plan assets	-	-
Unfunded actuarial accrued liability (UAAL) July 1, 2013	\$ 7,343,756	\$ 1,185,790
Funded ratio	- %	- %
Covered payroll	\$ 2,341,231	\$ 550,758
UAAL as percentage of covered payroll	313.7 %	215.3 %

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The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2014 and the preceding years were as follows:

	<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
EUTF	June 30, 2014	\$ 650,818	52.0%	\$ 3,733,472
	June 30, 2013	867,567	27.2%	3,420,854
	June 30, 2012	856,589	27.0%	2,789,487
UH	June 30, 2014	\$ 106,832	39.3%	\$ 579,196
	June 30, 2013	142,602	29.2%	514,364
	June 30, 2012	136,078	30.6%	413,462

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

On July 3, 2013, the Governor signed into law Act 268, SLH of 2013. Act 268 requires the EUTF to establish and administer separate trust accounts for each public employer for the purpose of receiving irrevocable employer contributions to prefund post-employment health and other benefit costs for retirees and their beneficiaries. It establishes the Hawaii EUTF Trust Fund Task Force to examine further steps to address the unfunded liability and requires all public employers to make annual required public employer contributions effective fiscal year 2014. Commencing fiscal year 2019, the annual public employer contribution shall be equal to the annual required contribution, as determined by an actuary retained by the EUTF board. In any fiscal year, should an employer's contribution be less than the annual required public employer contribution, the difference shall be transferred to the appropriate trust account from a portion of all general excise tax revenues, for the State, or transient accommodations tax revenues, for the counties.

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**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Significant methods and assumptions were as follows:

	<b>EUTF and UH</b>
Actuarial valuation date	July 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percentage, closed
Remaining amortization period	30 years
Asset valuation method	Fair value
Actuarial assumptions	
Investment rate of return	7.0%
Projected salary increase	3.5%
Healthcare inflation rates	
PPO	9.0% initial, 5.0% after 10 years
HMO	7.5% initial, 5.0% after 10 years
Dental	4.0%
Vision	3.0%
Medicare Part B	5.0%

Effective July 1, 2014, the active contracts for medical, prescription drug, dental, vision, supplemental medical drug, and life insurance were extended through June 30, 2015.

The Governor signed into law Act 226, SLH of 2013 that among other things, prohibited mandatory mail order. The EUTF voluntarily implemented Act 226 on October 1, 2013 for active employees and implemented Act 226 on January 1, 2014 for retirees.

**12. Commitments and Contingencies**

**Commitments**

**General Obligation Bonds**

The State has issued general obligation bonds in which repayments, including interest, are reimbursed from specific revenue sources of the Special Revenue Funds with terms corresponding to that of the related general obligation bonds (see Note 4). At June 30, 2014, outstanding commitments to repay general obligation bonds consisted of the following (amounts expressed in thousands):

<b>Special Revenue Funds</b>	
Highways	\$ 8,726
Agriculture	6,401
Natural Resources	2,262
All other	139
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	\$ 17,528

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**Accumulated Sick Leave** – Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2014, accumulated sick leave was approximately \$1,110,368,000.

**Intergovernmental Expenditures** – In accordance with Act 250, SLH of 2002, HRS Section 237D-6.5, \$93,000,000 in revenues generated by the transient accommodations tax are to be distributed to the counties.

**Guarantees of Indebtedness** – The State is authorized to guarantee indebtedness of others at a maximum amount of approximately \$233,500,000 for aquaculture/agriculture loans, Hawaiian Home Lands loans, various projects involving mortgage loans for rental homes made by private nonprofit corporations or governmental corporations, mortgage loans for housing projects, and rental assistance obligations of Component Units – HHFDC and HPHA. The State has not paid, nor does it expect to pay, any amounts as a result of such guarantees as of June 30, 2014.

#### **Proprietary Fund Type — Enterprise Funds**

##### **Construction and Service Contracts**

At June 30, 2014, the Enterprise Funds had commitments of approximately \$477,850,000 for construction and service contracts.

##### **Contingencies**

The State has been named as defendant in numerous lawsuits and claims arising in the normal course of operations. To the extent that the outcome of such litigation has been determined to result in probable financial loss to the State, such loss has been accrued in the basic financial statements. Of the remaining claims, a number of claims may possibly result in adverse judgments against the State. However, such claim amounts cannot be reasonably estimated at this time. The litigation payments relating to the fiscal years ended June 30, 2014, 2013 and 2012 approximated \$20,344,000, \$17,790,000 and \$3,668,000, respectively.

##### **Tobacco Settlement**

In November 1998, the State settled its tobacco lawsuit as part of a nationwide settlement involving 46 other states and various tobacco industry defendants. Under the settlement, those tobacco companies that have joined in the Master Settlement Agreement will pay the State approximately \$1.3 billion over a 25-year period. The State is to receive proceeds from this settlement in January and April of the subsequent year through 2004 and thereafter on April 15 of each subsequent year. The State has received approximately \$52,658,000 during the fiscal year ended June 30, 2014. As of June 30, 2014, the State expects to receive \$27,500,000 for the first six months of fiscal 2015.

##### **Office of Hawaiian Affairs and Ceded Lands**

In 1898, the former Republic of Hawaii transferred certain lands to the United States. Upon Hawaii's admission to the Union in 1959, the United States reconveyed title to those lands (collectively, the Ceded Lands) to the State of Hawaii to be held as a public trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians; (3) development of farm and home ownership; (4) making public improvements; and (5) provision of land for public use. On November 7, 1978, the State Constitution was amended expressly to provide that the Ceded Lands, excluding any "available lands" as defined in the Hawaiian Homes Commission Act of 1920, as amended, were to be held as a public trust for native Hawaiians and the general public, and to establish OHA to administer and manage the proceeds and income derived from a pro rata portion of the Ceded Lands as provided by law, to better the conditions of native Hawaiians. In 1979, the

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Legislature adopted HRS Chapter 10 (Chapter 10), which, as amended in 1980, specified, among other things, that OHA expend 20% of the funds derived by the State from the Ceded Lands for the betterment of native Hawaiians. Since then, the State's management of the Ceded Lands and its disposition of the proceeds and income from the Ceded Lands have been challenged by OHA, and individual native Hawaiians, Hawaiians and non-Hawaiians. Claims have been made under Article XII, Sections 4 and 6 of the Hawaii Constitution to the effect that the State has breached the public trust, and OHA has not received from the Ceded Lands all of the income and proceeds that it should be receiving. Except for the claims pending in the *OHA v. HHA* case discussed below, the Legislature, the state and federal courts, and the State's governors have acted to address the concerns raised. However, there can be no assurance that in the future there will not be asserted against the State new claims made under Article XII, Sections 4 and 6 of the Hawaii Constitution that the State has breached the public trust, or that OHA is not receiving from the Ceded Lands all of the income and proceeds that it should be receiving.

In *OHA v. HHA*, OHA filed suit on July 27, 1995 (*OHA v. HHA, et al.*, Civil No. 95-2682-07 (1<sup>st</sup> Cir.)) against the Hawaii Housing Authority (the HHA, since succeeded by the Hawaii Public Housing Authority, as described below), the executive director of the HHA, the board members of the HHA and the Director of Finance to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of Ceded Lands which were transferred to the HHA for its use to develop, construct and manage additional affordable public rental housing units under HRS Chapter 201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in *OHA, et al. v. State of Hawaii, et al.*, Civil No. 94-0205-01 (1<sup>st</sup> Cir.). The September 12, 2001 decision of the Hawaii Supreme Court (*OHA v. State of Hawaii*, 96 Haw. 399 (2001)) includes elements, with which OHA disagrees, that would require dismissal of OHA's claims in *OHA v. HHA*, and the case remains pending.

The Housing Finance and Development Corporation (HFDC) and the HHA were merged into the Housing and Community Development Corporation of Hawaii, after the above-described suits against them were filed. This corporation subsequently was bifurcated into the Hawaii Housing Finance and Development Corporation and the Hawaii Public Housing Authority.

The State intends to defend vigorously against OHA's claim in *OHA v. HHA*.

#### **Department of Hawaiian Home Lands**

In 1991, the Legislature enacted HRS Chapter 674, entitled "Individual Claims Resolution Under the Hawaiian Home Lands Trust," which established a process for individual beneficiaries of the Hawaiian Homes Commission Act of 1920 (HHCA) to file claims to recover actual economic damages they believed they suffered from a breach of trust caused by an act or omission of an official of the State between August 21, 1959, when Hawaii became a state, and June 30, 1988. Claims were required to be filed no later than August 31, 1995. There were 4,327 claims filed by 2,753 individuals.

The process was a three step process which: (1) began with informal proceedings presided over by the Hawaiian Home Lands Trust Individual Claims Review Panel (the Panel) to provide the Legislature with non-binding findings and advisory opinions for each claim; (2) provided for the Legislature's review and consideration of the Panel's findings and advisory opinions, and appropriations of funds to pay the actual economic damages the Legislature deemed appropriate; and (3) allowed claimants to bring de novo civil actions by December 31, 1999 if they were not satisfied with the Panel's findings and advisory opinions, or the Legislature's response to the Panel's recommendations.

In 1997, the Legislature declared its intent to postpone acting upon the Panel's recommendations until all claims had been reviewed and forwarded to it. Legislation to allow the Panel and the



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Legislature until September 30, 2000 to act on all claims, and postpone the deadline for unsatisfied claimants to file suit until December 31, 2000, was adopted by the Legislature, but vetoed by the Governor in the 1999 regular session, and the Panel sunsetted on December 31, 1999.

On December 29, 1999, three claimants filed a class action lawsuit in the state circuit court for declaratory and injunctive relief and for general, special and punitive damages for breach of trust or fiduciary duty under HRS Chapters 674 and 673, violation of the due process, equal protection and native rights clauses of the State Constitution, and breach of contract under HRS Chapter 661.

*Kalima et al. v. State of Hawaii et al.*, Civil No. 99-4771 12VSM (1<sup>st</sup> Cir.) (*Kalima I*). Five other claimants filed similar individual claims actions for themselves on or before December 31, 1999. The plaintiffs in these other actions stipulated to stay all proceedings in their actions pending the resolution of all questions of law in *Kalima I* that are common to the questions of law presented in their suits. Following the dismissal without prejudice of the actions of four of the five claimants, only one lawsuit, *Aguir v. State of Hawaii, et al.*, Civil No. 99-612 (3<sup>rd</sup> Cir.) (*Aguir*), is pending and stayed.

On March 30, 2000, the three named plaintiffs in *Kalima I* filed a second class action lawsuit in the state circuit court for declaratory and injunctive relief, and for damages under HRS Chapter 673, for the Panel's and Legislature's alleged failure to remedy their breach of trust claims under HRS Chapter 674.

*Kalima et al. v. State of Hawaii, et al.*, Civil No. 00-1-1041-03 (1<sup>st</sup> Cir.) (*Kalima II*). All proceedings in this action were stayed by stipulation, pending the resolution of those questions of law in *Kalima I* that are common to both *Kalima I* and *Kalima II*. *Kalima I*, *Kalima II* and *Aguir* are collectively referred to under this caption as the "Individual Claims Cases."

The plaintiffs in *Kalima I* filed a motion for partial summary judgment and asked the circuit court to declare that they were entitled to sue for breach of trust and recover damages under HRS Chapter 674. The State moved to dismiss the complaint and all claims in *Kalima I* for lack of subject matter jurisdiction. The circuit court granted the plaintiffs' motion and denied the State's motion. The State was permitted to take an interlocutory appeal. In an opinion issued June 30, 2006, the Hawaii Supreme Court affirmed the circuit court's determination that the plaintiffs were entitled to pursue their claims under HRS Chapter 674, but did not have a right to sue under HRS Chapter 661, and remanded the case back to the trial court for further proceedings.

The plaintiffs in *Kalima I* have since filed first and second amended complaints to add 11 plaintiffs, and to divide the class into nine subclasses to include those with claims for damages for injuries allegedly suffered by (1) allegedly waiting too long to receive a homestead, (2) being barred from or delayed in receiving a homestead by allegedly ultra vires rules, (3) receiving allegedly uninhabitable homesteads, (4) allegedly lost applications, (5) allegedly defectively constructed homes or infrastructure, (6) allegedly being prevented from or delayed in succeeding to a parent's or spouse's homestead, (7) the manner in which the loans were administered, (8) the manner in which the leases were administered and (9) other allegedly wrongful conduct. The court granted the plaintiffs' motion to try the waiting list subclass' claims separately and first, and after a six week bifurcated trial to determine liability only, the circuit judge for *Kalima II* ruled on November 3, 2009 that the State committed three breaches of trust between 1959 and 1988, and further proceedings were necessary to determine the amount of out-of-pocket damages the waiting list subclass members sustained, if any, as a result of those breaches.

By orders entered on November 24, 2009 and June 6, 2011, respectively, the Waiting List Liability Subclass certified for purposes of determining liability was recertified for the purpose of establishing causation and the fact of damages (over the State's objection), and again as the

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Waiting List Damages Model Subclass for the purpose of devising a model for use on a class-wide basis to determine the amount of damages subclass members may be awarded. Notice to the putative members of the Waiting List Damages Model Subclass of the right to opt-out of the Waiting List Damages Model Subclass was mailed to all members of the Waiting List Liability Subclass on May 22, 2012, and published on the DHHL Website, and in the DHHL and OHA newsletters.

Multiple motions to establish a damages model were filed and heard between March 2011 and August 31, 2012. Orders were entered on January 24, 2012, and February 14, 2013. After a three-day trial completed on October 3, 2013, the court ruled in a minute order that (1) the annual fair market rental values used to calculate damages for claimants who applied for Oahu residential leases be based on four percent of the fee simple value of a 5,000 square foot lot in Maili, obtained from a "best fit" curve derived from actual fee simple Maili valuations from 1959 through July 8, 2013, (2) for damage calculations the rents adjust annually, and (3) that there are no increases for the consumer price index or other present value adjustments. However, to date, no proceeding or procedure has been scheduled or devised to apply the damages model to determine whether and how much each claimant would be awarded in damages. The parties have participated in a private mediation on the matters in controversy in the case, pursuant to the circuit court's order approving the parties' Stipulation to Participate in Private Mediation, etc., filed on September 13, 2013.

*Nelson* – In the First Amended Complaint filed on October 19, 2007 in *Nelson et al., v. Hawaiian Homes Commission, et al.*, Civil No. 07-1-1663-08 BIA (1<sup>st</sup> Cir.) (*Nelson*), the plaintiffs allege all defendants breached their duties under Article XII, Sections 1 and 2 of the Hawaii Constitution by not providing sufficient funds to DHHL to place as many beneficiaries on residential, agricultural and pastoral homesteads within a reasonable period of time, and provide a fully functioning farm, ranch and aquaculture support program to maximize utilization of the homestead lands. They also allege that the Hawaiian Homes Commission and its members are in breach of the Hawaiian Home Lands trust for failing to obtain sufficient funds from the Legislature, and otherwise enforcing the provisions of Article XII, Sections 1 and 2 of the Hawaii Constitution, including filing suit against the State. Further, they allege that DHHL and the Hawaiian Homes Commission and its members have violated the Hawaiian Homes Commission Act (HHC Act) by leasing Hawaiian home lands solely to generate revenue and for commercial developments that are unrelated to actual homesteading programs, and without adhering to the requirements of Section 207(a) of the HHC Act.

As beneficiaries of the Hawaiian Home Lands trust and the HHC Act, the *Nelson* plaintiffs asked the court to issue a mandatory injunction requiring DHHL and the Hawaiian Homes Commission and its members to seek, and the State to provide, sufficient funds for DHHL to place as many beneficiaries on the land within a reasonable period of time. On January 21, 2009, the court granted the defendants' motion for entry of summary judgment rejecting all claims that are based on the theory that the Hawaii State Legislature, the State of Hawaii, or any State agency or employee, is required to appropriate, request or otherwise provide or secure particular amounts of money for DHHL and its programs now and in the future. The court concluded that the political question doctrine barred it from deciding those claims because initial policy determinations that the court lacked authority to make were needed to resolve the parties' dispute over the definition and determination of "sufficient sums" as that term is used in Article XII, Section 1 of the Hawaii Constitution.

A final judgment in favor of the State was filed on September 23, 2009, and the plaintiffs appealed. On January 12, 2011, the Intermediate Court of Appeals concluded that the political question doctrine did not preclude the courts from deciding the plaintiffs' claims, and vacated the judgment and remanded the case to the circuit court for further proceedings. The State and Director of Finance filed an application for writ of certiorari in the Hawaii Supreme Court to reverse the

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Intermediate Court of Appeals' judgment on appeal, and affirm the circuit court's final judgment, on May 4, 2011. In the Hawaii Supreme Court, the DHHL, and the Hawaiian Homes Commission and its members changed their position, and no longer supported the political question doctrine defense.

On May 9, 2012, the Hawaii Supreme Court concluded that there are no judicially manageable standards for determining "sufficient sums" for purposes of (1) developing lots, (2) loans, and (3) rehabilitation projects, which are the first three items listed in Article XII, Section 1. The Hawaii Supreme Court thus held plaintiffs' claims with respect to those items should have been rejected on political question grounds, and the Intermediate Court of Appeals erred in not so concluding. The Hawaii Supreme Court did, however, uphold the Intermediate Court of Appeals as to item (4) of Article XII, Section 1, concluding that there are judicially manageable standards to determine what constitutes sufficient sums for "administrative and operating expenses." Determination of this amount awaits further litigation in the circuit court on remand. Pursuant to the Judgment on Appeal issued on July 25, 2013, the case has been remanded to the circuit court for further proceedings.

The State intends to defend vigorously the claims against the State in all of the remaining Individual Claims Cases and in *Nelson*. The State is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of the plaintiffs' claims in the Individual Claims Cases, and some of the plaintiffs' claims in *Nelson*, in the respective plaintiffs' favor, could have a material adverse effect on the State's financial condition.

#### ***Employees' Retirement System***

In *Kaho'ohanohano, et al. v. State of Hawaii*, Civil No. 02-1-1001-04 (GWBC) (1<sup>st</sup> Cir.), the plaintiffs challenged certain legislation enacted by the State Legislature in 1999 (Act 100). Act 100 authorized the State to apply the ERS actuarial investment earnings in excess of 10% for fiscal years 1997 and 1998 toward the State and county employees' annual contributions to the pension accumulation of the ERS fund. The plaintiffs asked the court to declare Act 100 unconstitutional, to enjoin the State from taking future actions inconsistent with Article XVI, Section 2 of the Hawaii Constitution, and to require the State to pay damages to the ERS in the amount of \$346,900,000 plus lost earnings and pre- and post-judgment interest, costs, and attorneys' fees.

The plaintiffs were allowed to amend their complaint to add two state civil service employees as plaintiffs, and their motion to certify a class, consisting of all current and former public employees other than members of the legislature, judges and attorneys in the Department of the Attorney General, was granted. Motions made by the trustees of the ERS to intervene as plaintiffs and by the City and County of Honolulu to intervene as a defendant were granted. The Court made the counties of Hawaii, Maui, and Kauai intervenor defendants.

The plaintiffs filed two motions for partial summary judgment (as to liability only), and the State filed a motion to dismiss and a motion for summary judgment against the claims of the plaintiffs as well as the ERS' trustees. The State's motion to dismiss was denied in an order filed on May 16, 2003. An order granting summary judgment in favor of the State and against all of the claims of the plaintiffs and ERS trustees, and denying the plaintiffs' two motions, and a final judgment were entered on June 24, 2003. The county intervenor defendants filed a motion to alter or amend the order and judgment on June 27, 2003. By court rule, the motion was deemed denied on September 25, 2003, and notices of appeal from the June 24, 2003 order and judgment were filed by plaintiffs and the ERS trustees on October 27, 2003. The State cross appealed the order denying its motion to dismiss on November 7, 2003. On December 10, 2003, the circuit court entered an order granting the county intervenor defendants motion to alter or amend the June 24, 2003 order and judgment, and filed an amended summary judgment order and an amended final judgment. The plaintiffs and the ERS trustees filed notices of appeal from the amended order and

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amended judgment on December 23, 2003. The appeals from the amended order and amended judgment were dismissed on April 30, 2004.

In a 3-2 decision filed on July 23, 2007, the Hawaii Supreme Court vacated the June 24, 2003 order and judgment, and remanded the case to the circuit court with instructions to (1) enter an order dismissing the plaintiffs' claims for lack of jurisdiction, (2) enter summary judgment against the State and in favor of the ERS' trustees on the trustees' declaratory judgment claim that Act 100 violated Article XVI, Section 2 of the Hawaii Constitution, and (3) dispose of the ERS' trustees' other claims for declaratory relief appropriately. In concluding that Act 100 was unconstitutional, the majority held that "necessarily implied in Article XVI, Section 2 [of the Hawaii Constitution] prohibiting impairment of accrued benefits is the protection of the sources of those benefits;...Act 100 retroactively divested the ERS of \$346,900,000 of employer contributions for 1997, 1998 and 1999, thereby eliminating the sources used to fund constitutionally protected 'accrued benefits'; and...Act 100 undermined the retirement systems' continuing security and integrity." "[U]nder the circumstances of th[e] case," the court declined to issue the prospective injunction the ERS' trustees sought. (In their prayer for relief, the ERS' trustees asked that "the State and its officers and agents [be enjoined] from any further skimming the ERS' investment earnings and from taking any other or further action that (a) will diminish, impair or otherwise obligate the ERS' actuarial investment earnings; or (b) will reduce the Employers' periodic contributions as determined by the Board's actuary in accordance with the Chapter 88 and sound actuarial practice; or (c) otherwise will impair the contractual rights of the members.").

On remand, the circuit court entered an Order on Remand on April 8, 2014: (1) dismissing all claims of the named individual plaintiffs and the State of Hawaii Organization of Police Officers against the State and the four counties contained in the Complaint and the First and Second Amended Complaints filed by the plaintiffs; (2) entering summary judgment in favor of the ERS' trustees and against the State on the trustees' claim for declaratory judgment that Section 1 of Act 100 violated Article XVI, section 2, of the Hawaii Constitution; and (3) directing that the injunctive relief sought by the ERS trustees not issue. By a Stipulation for Dismissal Without Prejudice of All Remaining Claims and Parties filed on April 17, 2014, the parties stipulated and agreed that (1) all remaining claims of the ERS trustees (however denominated) be and are dismissed without prejudice; (2) all remaining claims of the State and the four counties (however denominated) be and are dismissed without prejudice; (3) a final judgment be entered in favor of the ERS trustees and against the State on the trustees' claim for a declaratory judgment that Section 1 of Act 100 violated Article XVI, section 2 of the Hawaii Constitution; and (4) each party bear his/her/its own attorneys' fees and costs. A Final Judgment was entered on May 20, 2014. No appeal from that judgment has been filed. This case is now closed.

#### ***Hawaii Employer-Union Health Benefits Trust Fund***

In June 2006, certain retired public employees (Plaintiffs) filed a class action lawsuit in the First Circuit Court, State of Hawaii, against the State, all of the counties of the State, the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), and the EUTF Board of Trustees (collectively, the Defendants). See *Marion Everson, et al. v. State of Hawaii, et al.*, Civil No. 06-1-1141-06, First Circuit Court, State of Hawaii (Civil No. 06-1-1141-06). In relevant part, Plaintiffs claimed that Defendants violated their constitutional, contractual and statutory rights under Article XVI, Section 2 of the Hawaii Constitution and HRS Chapters 87 and 87A by not providing health care benefits to retirees and their dependents that are equivalent to those provided to active employees and their dependents.

Following a related proceeding that commenced in 2007, the Hawaii Supreme Court held that health benefits for retired state and county employees constitute "accrued benefits" pursuant to Article XVI, Section 2 of the Hawaii Constitution, but that HRS Chapter 87A (particularly HRS Section 87A-23) did not require that retiree health benefits reasonably approximate those provided

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to active employees. See *Everson v. State*, 122 Hawai'i 401, P.3d 282 (2010). The Hawaii Supreme Court did not decide when retiree health benefits "accrued" so as to be protected under Article XVI, Section 2 of the Hawaii Constitution nor did it decide whether the enactment of any part of HRS Chapter 87A violated Article XVI, Section 2 of the Hawaii Constitution.

In December 2010, Plaintiffs filed a Second Amended Complaint in Civil No. 06-1-1140-06 (nka *James Dannenberg, et al. v. State of Hawaii, et al.*) claiming that Defendants have violated their constitutional, contractual and statutory rights under Article XVI, Section 2 of the Hawaii Constitution and HRS Chapter 87 by failing to provide them and other State and county retirees with: (a) health care benefits that are equivalent to those provided to State and county active employees; and/or (b) health care benefits that are equivalent to benefits provided to other employee-beneficiaries and dependent-beneficiaries, regardless of age. The Second Amended Complaint also claims that State and county employees who retired prior to July 1, 2001, are contractually entitled to have their employers pay for all their health plan premiums despite the contribution caps in Sections 87A-33 through 87A-36, HRS. The Second Amended Complaint also claims that the EUTF was negligent in failing to properly interpret constitutional, statutory and contractual requirements when it created retiree health plans. Plaintiffs seek declaratory and injunctive relief and monetary damages. The monetary damages sought are: (1) the amount that retirees and their dependents have had to personally pay for health care because Defendants refused or failed to provide them with the health benefits that they were constitutionally or contractually entitled to; (2) damages for health care that retirees and their dependents have foregone because Defendants refused or failed to provide them with the health benefits that they were constitutionally or contractually entitled to; and (3) damages for pain and suffering. In January 2011, the Defendants filed an answer denying the substantive allegations of the Second Amendment Complaint.

On August 29, 2013, the First Circuit Court entered an Order Granting Plaintiffs' Motion for Class Action Certification. The class certified is all employees (and their dependent-beneficiaries) who began working for the Territory of Hawaii, State of Hawaii, or any political subdivision thereof, before July 1, 2003, and who have accrued or will accrue a right to post-retirement health benefits as a retiree or dependent-beneficiary of such a retiree. This includes: (a) those who have not yet received any post-retirement health benefits from Defendants as a retiree or dependent-beneficiary of such a retiree; and (b) those who have received any post-retirement health benefits from Defendants since July 1, 2003 as a retiree or dependent-beneficiary of such a retiree. For purposes of damages only, if any, the class shall also include the estates and heirs of any deceased retiree or deceased dependent-beneficiary of a retiree who is or was a member of the class.

On December 10, 2012, Plaintiffs filed Plaintiffs' Motion for Partial Summary Judgment seeking judgment in their favor and against Defendants on the liability issues in the lawsuit, i.e., that Plaintiffs be granted their requested declaratory and injunctive relief, and that Defendants be found liable for monetary damages in an amount to be determined later. On July 25, 2013, State Defendants filed State Defendants' Motion for Partial Summary Judgment seeking judgment in their favor and against Plaintiffs on all of Plaintiffs' claims that are based on the allegations that: (1) State Defendants have violated the constitutional, contractual and statutory rights of Plaintiffs by not providing health care benefits for retirees and their dependents that are equivalent to those provided to active employees and their dependents; (2) State Defendants have violated the constitutional and contractual rights of Plaintiffs by not providing health care benefits to retirees and their dependents that are equivalent to those provided to other employee-beneficiaries and dependent-beneficiaries, regardless of age; and (3) State Defendants were negligent in providing health benefits to retirees and their dependents. Both motions were heard by the First Circuit Court on October 30, 2013, and taken under advisement. On October 16, 2014, the Court issued an Order Denying Plaintiffs' Motion for Partial Summary Judgment and Order Granting State

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Defendants' Motion for Partial Summary Judgment (Order). The Court ruled that Plaintiffs' accrued health benefits have not been reduced, diminished or impaired inasmuch as the health benefits that retirees received under the Hawaii Public Employees Health Fund. Plaintiffs filed a motion for reconsideration of the Order or alternatively for an interlocutory appeal. On November 13, 2014, the Court issued a minute order denying a motion. No trial date has been set. State Defendants intend to continue to rigorously defend against Plaintiffs' claims in this lawsuit.

#### ***Department of Education***

Consolidated class action cases have been brought against the State Department of Education (DOE) on behalf of substitute teachers alleging that the DOE has failed to pay substitute teachers in accordance with the rate provided in the Hawaii Revised Statutes from July 1, 1996 to June 30, 2005.

An adverse ruling against the State was made by the First Circuit Court on a motion for summary judgment regarding liability issues. The adverse ruling was the subject of an interlocutory appeal to the Intermediate Court of Appeals, which issued its ruling on October 30, 2009, affirming the adverse ruling. The Supreme Court denied certiorari on August 16, 2010 and the case was remanded to the Circuit Court for a determination of damages.

The parties agreed to settle before the matter was set for trial on this issue. On February 26, 2014, a settlement check in the amount of approximately \$15,091,100 was transmitted to Plaintiffs' attorney. Subsequently, the Circuit Court granted Plaintiffs' motion for the award of prejudgment interest. The State will likely appeal that decision.

#### ***Continuing Disclosure Certificates***

The State entered into continuing disclosure certificates for the benefit of general obligation bondholders, where it agreed to provide certain financial information and operating data relating to the State with respect to its general obligation bonds and certificates of participation to the Municipal Securities Rulemaking Board.

In two instances within the past five years, the State filed annual reports on a timely basis, but did not include audited financial statements or, as required by the applicable continuing disclosure certificates, when audited financial statements were not available, unaudited financial statements. In each case, a notice was filed that the audited financial statements were not available and audited financial statements were filed when they became available. In addition, the State has in certain years during the past five years failed to file certain notices or file them in a timely manner. The State has policies and procedures in place to enhance compliance with its continuing disclosure undertakings.

### **13. Risk Management**

The State records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past ten fiscal years. A summary of the State's underwriting risks is as follows:

#### **Property Insurance**

The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible for coverage is 3% of loss subject to a \$1,000,000 per occurrence minimum. This policy includes windstorm, earthquake, flood damage, terrorism, and boiler and machinery coverage. The limit of loss per occurrence is \$200,000,000, except for earthquake,

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which individually has a \$100,000,000 limit and terrorism, which is \$50,000,000 per occurrence and a \$10,000 deductible.

**Crime Insurance**

The State also has a crime insurance policy for various types of coverages with a limit of loss of \$10,000,000 per occurrence with a \$500,000 deductible per occurrence, except for claims expense coverage, which has a \$100,000 limit per occurrence and a \$1,000 deductible. Losses not covered by insurance are paid from legislative appropriations of the State's General Fund.

**General Liability (Including Torts)**

Liability claims under \$10,000 and automobile claims under \$15,000 are handled by the risk management office of the Department of Accounting and General Services. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, insurance policy in force with a \$4,000,000 self-insured retention per occurrence. The annual aggregate per occurrence is \$15,000,000 and for crime loss, \$10,000,000 with no aggregate limit.

Losses under the deductible amount or over the aggregate limit are paid from legislative appropriations of the State's General Fund.

**Medical Insurance**

The State's community hospitals included in the HHSC are insured by a comprehensive hospital professional liability policy. The policy covers losses from personal injury, professional liability, patient property damage, and employee benefits. This policy covers losses up to a limit of \$35,000,000 per occurrence and \$39,000,000 in aggregate.

**Self-Insured Risks**

The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses below \$15,000 are administered by the Risk Management Office. The State administers its workers' compensation losses.

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**Reserve for Losses and Loss Adjustment Costs**

A liability for workers' compensation and general liability claims is established if information indicates that a loss has been incurred as of June 30, 2014, and the amount of the loss can be reasonably estimated. The liability also includes an estimate for amounts incurred but not reported. The amount of the estimated loss is recorded in the accompanying statement of net position, as those losses will be liquidated with future expendable resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The following table represents changes in the amount of the estimated losses and the loss adjustment costs at June 30, 2014 (amounts expressed in thousands):

	<b>2014</b>	<b>2013</b>
<b>Unpaid losses and loss adjustment costs</b>		
Beginning of the fiscal year	\$ 155,138	\$ 169,900
Incurred losses and loss adjustment costs		
Provision for insured events of current fiscal year	35,050	26,270
Change in provision for insured events of prior fiscal years	1,593	(1,159)
Total incurred losses and loss adjustment costs	36,643	25,111
Payments		
Losses and loss adjustment costs attributable to insured events of current fiscal year	(24,333)	(19,954)
Losses and loss adjustment costs attributable to insured events of prior fiscal year	(20,328)	(19,919)
Total payments	(44,661)	(39,873)
<b>Unpaid losses and loss adjustment costs</b>		
End of the fiscal year	\$ 147,120	\$ 155,138

**14. Subsequent Events**

**General Obligation Bonds**

On November 25, 2014, the State issued \$575,000,000 in General Obligation Bonds of 2014, Series EO, \$209,015,000 in General Obligation Refunding Bonds of 2014, Series EP, \$25,000,000 in Taxable General Obligation Bonds of 2014, Series EQ, \$5,880,000 in Taxable General Obligation Refunding Bonds of 2014, Series ER, and \$193,880,000 in Taxable General Obligation Refunding Bonds of 2014, Series ES. Series EO and EQ were issued for the purpose of financing or reimbursing the State for the Hawaiian Home Lands Settlement, and for the cost of acquisition, construction, extension or improvement of various public improvement projects, among which are public buildings and facilities, elementary and secondary schools, community college and university facilities, public libraries and parks and for other public purposes. The refunding bonds were issued for the purpose of refunding outstanding general obligation bonds previously issued.

**Department of Transportation – Highways Division**

On August 14, 2014, Highways issued \$103,375,000 in Tax-Exempt Highway Revenue Bonds, Series 2014 A, \$32,285,000 in Tax-Exempt Refunding Highway Revenue Bonds, Series 2014 B, and \$28,020,000 in Taxable Refunding Highway Revenue Bonds, Series 2014 C. The Series 2014 Bonds were issued to fund certain highway capital improvement projects, refund certain outstanding Highway Revenue Bonds, pay the cost of issuance, and to purchase an insurance policy as a Support Facility for deposit to the Highway Senior Debt Service Reserve Subaccount to satisfy the Reserve Requirement.



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**Department of Business, Economic Development, and Tourism**

On November 13, 2014, the Department of Business, Economic Development and Tourism issued \$150,000,000 in Taxable Green Energy Market Securitization Bonds, 2014 Series A. The bonds are special and limited obligations of the State payable from and secured by the Revenues and other Bond Collateral which is pledged to the payment thereof, including the Green Infrastructure Property and Accounts held under Indenture. The bonds were issued for the financing of environmentally beneficial projects.

**Department of Transportation – Airports Division**

In August 2014, the State, acting through the DOT, entered into a loan agreement with Hawaii Regional Center, LP I and Hawaii Regional Center, LP II (together, the Lenders), with CanAM HI GP I, LLC, acting as the agent of the Lenders. The Lenders were created to permit foreign investors to invest in certain projects at the Hawaii Airports System pursuant to an Immigration Investor Program (EB-5) created according to legislation enacted by the United States Congress in 1990. The total amount the State may borrow under the agreement is \$76,000,000. The EB-5 loan is the first series of obligations issued under an Indenture of Trust between the State, acting through the DOT and MUFG Union Bank, N.A., as Trustee, and is payable solely from Trust Estate, with Customer Facility Charges being the primary component. The EB-5 loan is not payable from Revenues and Aviation Fuel Taxes, which the DOT has pledged for the repayment of Airports System Revenue Bonds issued under the Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds.

**REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Required Supplementary Information**  
**Other Than Management's Discussion and Analysis**  
**(Unaudited)**

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General Fund – Schedule of Revenues and Expenditures –  
Budget and Actual (Budgetary Basis)

Med-Quest Special Revenue Fund – Schedule of Revenues and Expenditures –  
Budget and Actual (Budgetary Basis)

Notes to Required Supplementary Information – Budgetary Control

Reconciliation of the Budgetary to GAAP Basis –  
General Fund and Med-Quest Special Revenue Fund

Schedules of Funding Progress – EUTF, HSTA-VEBA and UH

**State of Hawaii**  
**General Fund**  
**Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis)**  
**Year Ended June 30, 2014**  
**(Amounts in thousands)**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual (Budgetary Basis)</b>	<b>Variance With Final Budget – Positive (Negative)</b>
<b>Revenues</b>				
Taxes				
General excise tax	\$ 3,086,956	\$ 2,916,278	\$ 2,825,041	\$ (91,237)
Net income tax				
Corporations	74,809	64,677	87,062	22,385
Individuals	1,708,604	1,801,980	1,745,283	(56,697)
Inheritance and estate tax	14,753	15,136	14,789	(347)
Liquor permits and tax	51,303	49,245	48,305	(940)
Public service companies tax	162,270	168,981	166,179	(2,802)
Tobacco tax	107,478	81,065	77,659	(3,406)
Tax on premiums of insurance companies	120,000	132,000	137,179	5,179
Franchise tax (banks and other financial institutions)	26,237	23,243	36,983	13,740
Transient accommodations tax	191,048	171,652	187,229	15,577
Other taxes, primarily conveyances tax	34,396	38,666	44,949	6,283
<b>Total taxes</b>	<b>5,577,854</b>	<b>5,462,923</b>	<b>5,370,658</b>	<b>(92,265)</b>
Non-taxes				
Interest and investment income	10,250	5,089	5,012	(77)
Charges for current services	255,797	253,261	273,671	20,410
Intergovernmental	12,918	12,893	12,924	31
Rentals	707	266	26	(240)
Fines, forfeitures and penalties	23,903	22,990	22,623	(367)
Licenses and fees	5,812	6,019	6,443	424
Revenues from private sources	2,504	2,501	3,257	756
Debt service requirements	34,630	34,779	34,815	36
Other	181,156	284,291	320,682	36,391
<b>Total non-taxes</b>	<b>527,677</b>	<b>622,089</b>	<b>679,453</b>	<b>57,364</b>
<b>Total revenues</b>	<b>6,105,531</b>	<b>6,085,012</b>	<b>6,050,111</b>	<b>(34,901)</b>
<b>Expenditures</b>				
General government	2,361,147	2,409,437	2,344,446	64,991
Public safety	227,529	286,933	286,343	590
Conservation of natural resources	35,586	36,369	31,359	5,010
Health	417,451	441,018	430,377	10,641
Hospitals	82,940	104,040	104,040	-
Welfare	1,103,022	1,104,439	1,095,950	8,489
Lower education	1,468,939	1,508,192	1,469,769	38,423
Higher education	387,221	391,425	391,273	152
Other education	5,630	5,719	5,563	156
Culture and recreation	40,764	41,653	41,177	476
Economic development and assistance	24,838	26,125	23,921	2,204
Housing	21,982	21,993	20,783	1,210
Other	9,632	22,328	21,805	523
<b>Total expenditures</b>	<b>6,186,681</b>	<b>6,399,671</b>	<b>6,266,806</b>	<b>132,865</b>
Deficiency of revenues under expenditures	(81,150)	(314,659)	(216,695)	97,964
Other financing sources – Transfers in	34,321	47,820	46,097	(1,723)
Deficiency of revenues and other sources under expenditures	<b>\$ (46,829)</b>	<b>\$ (266,839)</b>	<b>\$ (170,598)</b>	<b>\$ 96,241</b>

**State of Hawaii****Med-Quest Special Revenue Fund****Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis)****Year Ended June 30, 2014****(Amounts in thousands)**

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	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual (Budgetary Basis)</b>	<b>Variance With Final Budget – Positive (Negative)</b>
<b>Revenues - non-taxes</b>				
Interest and investment income	\$ -	\$ -	\$ 17	\$ 17
Charges for current services	-	-	18	18
Intergovernmental	43,704	86,448	67,385	(19,063)
Revenues from private sources	-	-	43,527	43,527
Other	18,141	39,985	47,608	7,623
Total revenues - non-taxes	<u>61,845</u>	<u>126,433</u>	<u>158,555</u>	<u>32,122</u>
<b>Expenditures</b>				
Welfare	<u>75,912</u>	<u>75,912</u>	<u>51,897</u>	<u>24,015</u>
Total expenditures	<u>75,912</u>	<u>75,912</u>	<u>51,897</u>	<u>24,015</u>
(Deficiency) excess of revenues (under) over expenditures	<u>\$ (14,067)</u>	<u>\$ 50,521</u>	<u>\$ 106,658</u>	<u>\$ 56,137</u>

## **State of Hawaii**

### **Notes to Required Supplementary Information – Budgetary Control Year Ended June 30, 2014**

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The budget of the State is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services, and activities to be provided during the fiscal year; (2) the estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the General Fund Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis) are those estimates as compiled by the Council on Revenues and the Director of Finance. Budgeted expenditures are derived primarily from the General Appropriations Act of 2013 and from other authorizations contained in the State Constitution, the HRS, and other specific appropriations acts in various SLH.

All expenditures of appropriated funds have been made pursuant to the appropriations in the fiscal 2013–2015 biennial budget.

The General Fund and Special Revenue Funds have legally appropriated annual budgets. The Capital Projects Fund's appropriated budgets are for projects that may extend over several fiscal years.

The final legally adopted budget in the accompanying General Fund Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis) represents the original appropriations, transfers and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations acts. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the Department of Accounting and General Services. During the fiscal year ended June 30, 2014, there were no expenditures in excess of appropriations in the individual funds.

To the extent not expended or encumbered, the General Fund's appropriations generally lapse at the end of the fiscal year for which the appropriations are made. The State Legislature specifies the lapse dates and any other contingencies, which may terminate the authorizations for other appropriations.

Budgets adopted by the State Legislature for the General Fund are presented in the General Fund statement of revenues and expenditures – budget and actual (budgetary basis). The State's annual budget is prepared on the cash basis of accounting except for the encumbrance of purchase order and contract obligations (basis difference), which is a departure from GAAP.

**State of Hawaii**  
**General Fund and Med-Quest Special Revenue Fund**  
**Reconciliation of the Budgetary to GAAP Basis**  
**Year Ended June 30, 2014**  
**(Amounts in thousands)**

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A reconciliation of the budgetary to GAAP basis operating results for the fiscal year ended June 30, 2014 follows (amounts expressed in thousands):

	<b>General Fund</b>	<b>Med-Quest Special Revenue Fund</b>
	<u>                    </u>	<u>                    </u>
Excess (deficiency) of revenues and other sources over (under)		
expenditures – actual (budgetary basis)	\$ (216,695)	\$ 106,658
Transfers	<u>707,267</u>	<u>(898)</u>
Excess (deficiency) of revenues over (under)		
expenditures – actual (budgetary basis)	490,572	105,760
Reserve for encumbrances at fiscal year end*	349,083	-
Expenditures for liquidation of prior fiscal year encumbrances	(354,435)	(30,809)
Revenues and expenditures for unbudgeted programs		
and capital projects accounts, net	16,421	(73,571)
Tax refunds payable	4,068	-
Accrued liabilities	68,504	(24,488)
Accrued revenues	<u>(2,653)</u>	<u>33,019</u>
Excess of revenues over expenditures - GAAP basis	<u>\$ 571,560</u>	<u>\$ 9,911</u>

\*Amount reflects the encumbrance balances (included in continuing appropriations) for budgeted programs only.

**State of Hawaii**  
**Schedules of Funding Progress**  
**June 30, 2014**  
(Amounts in Millions)

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
<b>EUTF</b>						
July 1, 2009	\$ -	\$ 11,523	\$ 11,523	- %	\$ 1,432	804.7%
July 1, 2011	-	11,706	11,706	- %	2,093	559.3%
July 1, 2013	-	7,344	7,344	- %	2,341	313.7%
<b>HSTA-VEBA</b>						
July 1, 2009	\$ -	\$ 2,484	\$ 2,484	- %	\$ 683	363.7%
<b>UH</b>						
July 1, 2009	\$ -	\$ 1,850	\$ 1,850	- %	\$ 495	373.7%
July 1, 2011	-	1,861	1,861	- %	504	369.3%
July 1, 2013	-	1,186	1,186	- %	551	215.3%



## **SUPPLEMENTARY INFORMATION**

**State of Hawaii**  
**Nonmajor Governmental Funds**  
**June 30, 2014**

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**NONMAJOR GOVERNMENTAL FUNDS**

**Special Revenue Funds**

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted for specific purposes. Certain Special Revenue Funds are presented separately in the accompanying combining financial statements, with the remainder grouped as a single entity. The Special Revenue Funds are as follows:

**Highways** – Accounts for programs related to maintaining and operating land transportation facilities.

**Natural Resources** – Accounts for programs related to the conservation, development and utilization of agriculture, aquaculture, water, land and other natural resources of the State.

**Health** – Accounts for programs related to mental health, nutrition services, communicable disease and for other public health services.

**Human Services** — Accounts for social service programs, which include public welfare, eligibility and disability determination, and housing assistance.

**Education** – Accounts for programs related to instructional education, school food services and student driver education.

**Economic Development** – Accounts for programs related to the development and promotion of industry and international commerce, energy development and management, economic research and analysis, and the utilization of resources.

**Employment** – Accounts for programs related to employment and training, disability compensation, placement services, and occupational safety and health.

**Regulatory** – Accounts for programs related to consumer protection, business registration and cable television regulation.

**Hawaiian Programs** — Accounts for programs related to the betterment of the conditions of native Hawaiians.

**Administrative Support** – Accounts for programs of certain administrative agencies.

**All Other** – Accounts for programs related to water recreation, inmate stores, and driver training and education.

**Debt Service Fund**

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general obligation bonds serviced by the General Fund and general obligation bonds and revenue bonds serviced by the Special Revenue Funds.

**State of Hawaii**  
**Nonmajor Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2014**  
**(Amounts in thousands)**

	<b>Special Revenue Funds</b>					
	<b>Highways</b>	<b>Natural Resources</b>	<b>Health</b>	<b>Human Services</b>	<b>Education</b>	<b>Economic Development</b>
<b>Assets</b>						
Cash and cash equivalents	\$ 23,733	\$ 14,288	\$ 19,520	\$ 6,537	\$ 49,610	\$ 3,900
Notes and loans receivable, net	-	20,455	-	-	-	-
Due from other funds	2,000	-	-	-	-	-
Investments	174,042	104,779	143,145	47,943	132,689	28,605
Total assets	<u>\$ 199,775</u>	<u>\$ 139,522</u>	<u>\$ 162,665</u>	<u>\$ 54,480</u>	<u>\$ 182,299</u>	<u>\$ 32,505</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Vouchers and contracts payable	\$ 30,602	\$ 6,300	\$ 15,124	\$ 11,579	\$ 14,719	\$ 845
Other accrued liabilities	5,240	2,090	6,052	586	13,132	765
Due to federal government	-	-	-	16,854	-	-
Due to other funds	-	2,527	-	22,600	-	-
Payable from restricted assets –						
Matured bonds and interest payable	-	-	-	-	-	-
Total liabilities	<u>35,842</u>	<u>10,917</u>	<u>21,176</u>	<u>51,619</u>	<u>27,851</u>	<u>1,610</u>
<b>Fund balances</b>						
Restricted	-	-	-	27,110	-	-
Committed	18,577	94,766	158,886	1,257	-	16,046
Assigned	145,356	33,839	-	-	154,448	14,849
Unassigned	-	-	(17,397)	(25,506)	-	-
Total fund balances	<u>163,933</u>	<u>128,605</u>	<u>141,489</u>	<u>2,861</u>	<u>154,448</u>	<u>30,895</u>
Total liabilities and fund balances	<u>\$ 199,775</u>	<u>\$ 139,522</u>	<u>\$ 162,665</u>	<u>\$ 54,480</u>	<u>\$ 182,299</u>	<u>\$ 32,505</u>

The accompanying notes are an integral part of the basic financial statements.

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<b>Employment</b>	<b>Regulatory</b>	<b>Hawaiian Programs</b>	<b>Administrative Support</b>	<b>All Other</b>	<b>Total</b>	<b>Debt Service Fund</b>	<b>Total Nonmajor Governmental Funds</b>
\$ 3,967	\$ 6,752	\$ 33,196	\$ 32,151	\$ 5,499	\$ 199,153	\$ 359	\$ 199,512
-	-	52,326	-	-	72,781	-	72,781
-	-	-	-	-	2,000	35	2,035
29,091	49,516	216,656	144,079	40,336	1,110,881	-	1,110,881
<u>\$ 33,058</u>	<u>\$ 56,268</u>	<u>\$ 302,178</u>	<u>\$ 176,230</u>	<u>\$ 45,835</u>	<u>\$ 1,384,815</u>	<u>\$ 394</u>	<u>\$ 1,385,209</u>
\$ 2,904	\$ 560	\$ 3,236	\$ 1,875	\$ 4,806	\$ 92,550	\$ -	\$ 92,550
1,598	2,029	503	2,795	2,025	36,815	-	36,815
-	-	-	-	-	16,854	-	16,854
-	-	-	-	2,517	27,644	-	27,644
-	-	-	-	-	-	359	359
<u>4,502</u>	<u>2,589</u>	<u>3,739</u>	<u>4,670</u>	<u>9,348</u>	<u>173,863</u>	<u>359</u>	<u>174,222</u>
-	-	-	-	-	27,110	35	27,145
17,521	38,916	96,727	55,236	-	497,932	-	497,932
11,035	14,763	201,712	116,324	36,487	728,813	-	728,813
-	-	-	-	-	(42,903)	-	(42,903)
<u>28,556</u>	<u>53,679</u>	<u>298,439</u>	<u>171,560</u>	<u>36,487</u>	<u>1,210,952</u>	<u>35</u>	<u>1,210,987</u>
<u>\$ 33,058</u>	<u>\$ 56,268</u>	<u>\$ 302,178</u>	<u>\$ 176,230</u>	<u>\$ 45,835</u>	<u>\$ 1,384,815</u>	<u>\$ 394</u>	<u>\$ 1,385,209</u>

**State of Hawaii**  
**Nonmajor Governmental Funds**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Year Ended June 30, 2014**  
**(Amounts in thousands)**

	Special Revenue Funds				
	Highways	Natural Resources	Health	Human Services	Economic Development
<b>Revenue</b>					
Taxes					
Franchise tax	\$ -	\$ -	\$ -	\$ -	\$ -
Other tax revenue	-	30,023	1,239	-	3,719
Tobacco and liquor taxes	-	-	28,115	-	-
Liquid fuel tax	86,819	261	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-
Vehicle weight and registration tax	119,297	-	5,389	-	-
Rental motor/tour vehicle surcharge tax	42,852	-	-	-	-
Total taxes	248,968	30,284	34,743	-	3,719
Interest and investment income	737	890	212	4	1,535
Charges for current services	3,684	28,789	35,277	257	5,806
Intergovernmental	180,693	18,055	118,698	717,628	15,619
Rentals	612	8,947	-	-	1,395
Fines, forfeitures and penalties	1,945	103	2,444	-	-
Licenses and fees	1,823	625	1,043	115	-
Revenues from private sources	-	129	52,345	37	-
Other	10,329	4,930	1,687	783	3,120
Total revenues	448,791	92,752	246,449	718,824	31,194
<b>Expenditures</b>					
Current					
General government	-	4,482	176	-	-
Public safety	-	1,925	-	-	-
Highways	283,802	123	-	-	-
Conservation of natural resources	-	60,763	-	-	-
Health	-	-	208,471	-	-
Welfare	-	-	-	677,302	-
Lower education	-	-	-	-	436,752
Other education	-	-	-	15,207	-
Culture and recreation	-	10,109	-	-	2,907
Urban redevelopment and housing	-	-	-	2,390	-
Economic development and assistance	-	2,002	-	-	27,129
Other	268	5	-	-	-
Debt service	-	-	-	-	-
Total expenditures	284,070	79,409	208,647	694,899	27,129
Excess (deficiency) of revenues over (under) expenditures	164,721	13,343	37,802	23,925	4,065
<b>Other financing sources (uses)</b>					
Issuance of GO and refunding GO bonds – par	-	-	-	-	-
Issuance of GO and refunding GO bond – premium	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-
Transfers in	454	1,819	327	1,665	67,091
Transfers out	(135,077)	(1,231)	(25,701)	(17,410)	-
Total other financing sources (uses)	(134,623)	588	(25,374)	(15,745)	67,091
Net change in fund balances	30,098	13,931	12,428	8,180	10,085
<b>Fund balances</b>					
Beginning of year	133,835	114,674	129,061	(5,319)	20,810
End of year	\$ 163,933	\$ 128,605	\$ 141,489	\$ 2,861	\$ 30,895

The accompanying notes are an integral part of the basic financial statements.

<u>Employment</u>	<u>Regulatory</u>	<u>Hawaiian Programs</u>	<u>Administrative Support</u>	<u>All Other</u>	<u>Total</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ 2,000	\$ -	\$ -	\$ -	\$ 2,000	\$ -	\$ 2,000
1,413	-	-	-	-	36,394	-	36,394
-	-	-	1,911	-	30,026	-	30,026
-	-	-	-	1,627	88,707	-	88,707
-	1,895	-	-	-	1,895	-	1,895
-	-	-	-	-	124,686	-	124,686
-	-	-	-	-	42,852	-	42,852
1,413	3,895	-	1,911	1,627	326,560	-	326,560
76	136	4,173	231	70	8,134	-	8,134
15,245	19,964	5,371	56,018	22,431	233,190	-	233,190
40,850	1,624	5,682	20,933	56,280	1,454,078	-	1,454,078
-	-	15,942	1,019	3,536	31,820	-	31,820
1,412	1,879	-	218	2,462	10,463	-	10,463
-	14,681	-	21,332	544	40,766	-	40,766
-	-	3,000	1,803	37	66,132	-	66,132
2,593	387	11,109	12,269	5,086	71,029	-	71,029
61,589	42,566	45,277	115,734	92,073	2,242,172	-	2,242,172
-	-	-	35,096	18,366	58,120	-	58,120
3,586	39,654	-	15,317	63,570	124,052	-	124,052
-	-	365	370	-	284,660	-	284,660
-	-	-	25	-	60,788	-	60,788
-	-	-	-	-	208,471	-	208,471
-	-	-	11,998	1,548	690,848	-	690,848
-	-	-	6,953	-	443,705	-	443,705
-	-	-	-	-	15,207	-	15,207
-	-	-	10,871	17,139	41,026	-	41,026
-	-	50,433	72	-	52,895	-	52,895
55,028	-	-	-	538	84,697	-	84,697
-	-	-	5,910	1,309	7,492	-	7,492
-	-	-	-	-	-	737,298	737,298
58,614	39,654	50,798	86,612	102,470	2,071,961	737,298	2,809,259
2,975	2,912	(5,521)	29,122	(10,397)	170,211	(737,298)	(567,087)
-	-	-	-	-	-	171,060	171,060
-	-	-	-	-	-	14,500	14,500
-	-	-	-	-	-	(185,560)	(185,560)
-	3,465	30,000	53,158	7,445	171,444	737,270	908,714
(85)	(2,900)	(3,054)	(15,670)	(1,907)	(203,035)	-	(203,035)
(85)	565	26,946	37,488	5,538	(31,591)	737,270	705,679
2,890	3,477	21,425	66,610	(4,859)	138,620	(28)	138,592
25,666	50,202	277,014	104,950	41,346	1,072,332	63	1,072,395
\$ 28,556	\$ 53,679	\$ 298,439	\$ 171,560	\$ 36,487	\$ 1,210,952	\$ 35	\$ 1,210,987

**State of Hawaii**  
**Nonmajor Special Revenue Funds**  
**Combining Statement of Revenues and Expenditures – Budget and Actual**  
**(Budgetary Basis)**  
**Year Ended June 30, 2014**  
**(Amounts in thousands)**

	Highways			Natural Resources		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
<b>Revenue</b>						
Taxes						
Liquid fuel tax						
Highways	\$ 87,435	\$ 86,819	\$ (616)	\$ 230	\$ 261	\$ 31
Vehicle registration fee tax	42,100	43,137	1,037	-	-	-
State vehicle weight tax	67,681	76,160	8,479	-	-	-
Rental/tour vehicle surcharge tax	46,361	42,852	(3,509)	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	-	-	-
Conveyances tax	-	-	-	14,200	26,303	12,103
Environmental response tax	-	-	-	3,700	3,719	19
Transient accommodations tax	-	-	-	1,000	-	(1,000)
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	<u>243,577</u>	<u>248,968</u>	<u>5,391</u>	<u>19,130</u>	<u>30,283</u>	<u>11,153</u>
Non-taxes						
Interest and investment income	500	733	233	1,143	871	(272)
Charges for current services	35,158	3,684	(31,474)	25,965	28,695	2,730
Intergovernmental	48,000	68,496	20,496	475	197	(278)
Rentals	-	612	612	5,290	8,947	3,657
Fines, forfeitures and penalties	2,008	1,945	(63)	68	103	35
Licenses and fees	1,998	1,823	(175)	535	625	90
Revenues from private sources	-	-	-	-	128	128
Other	56	1,653	1,597	2,671	4,909	2,238
Total non-taxes	<u>87,720</u>	<u>78,946</u>	<u>(8,774)</u>	<u>36,147</u>	<u>44,475</u>	<u>8,328</u>
Total revenues	<u>331,297</u>	<u>327,914</u>	<u>(3,383)</u>	<u>55,277</u>	<u>74,758</u>	<u>19,481</u>
<b>Expenditures</b>						
General government	-	-	-	4,852	4,541	311
Public safety	-	-	-	1,198	776	422
Highways	291,369	267,859	23,510	-	-	-
Conservation of natural resources	-	-	-	65,842	54,399	11,443
Health	-	-	-	-	-	-
Welfare	-	-	-	-	-	-
Lower education	-	-	-	-	-	-
Culture and recreation	-	-	-	7,171	4,933	2,238
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	-	-	-	-	-	-
Other	1,800	268	1,532	-	-	-
Total expenditures	<u>293,169</u>	<u>268,127</u>	<u>25,042</u>	<u>79,063</u>	<u>64,649</u>	<u>14,414</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 38,128</u>	<u>\$ 59,787</u>	<u>\$ 21,659</u>	<u>\$ (23,786)</u>	<u>\$ 10,109</u>	<u>\$ 33,895</u>

The accompanying notes are an integral part of the basic financial statements.

Health			Human Services		
Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5,378	5,389	11	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
33,209	28,115	(5,094)	-	-	-
-	-	-	-	-	-
1,340	1,240	(100)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>39,927</u>	<u>34,744</u>	<u>(5,183)</u>	<u>-</u>	<u>-</u>	<u>-</u>
270	212	(58)	-	3	3
80,944	88,047	7,103	-	257	257
1,810	3,257	1,447	240	982	742
-	-	-	-	-	-
1,142	2,444	1,302	-	-	-
1,307	1,044	(263)	406	115	(291)
50,300	52,345	2,045	-	37	37
1,305	974	(331)	-	779	779
<u>137,078</u>	<u>148,323</u>	<u>11,245</u>	<u>646</u>	<u>2,173</u>	<u>1,527</u>
<u>177,005</u>	<u>183,067</u>	<u>6,062</u>	<u>646</u>	<u>2,173</u>	<u>1,527</u>
258	176	82	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
216,363	165,630	50,733	-	-	-
-	-	-	4,031	1,483	2,548
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>216,621</u>	<u>165,806</u>	<u>50,815</u>	<u>4,031</u>	<u>1,483</u>	<u>2,548</u>
<u>\$ (39,616)</u>	<u>\$ 17,261</u>	<u>\$ 56,877</u>	<u>\$ (3,385)</u>	<u>\$ 690</u>	<u>\$ 4,075</u>

(continued)



**State of Hawaii**  
**Nonmajor Special Revenue Funds**  
**Combining Statement of Revenues and Expenditures – Budget and Actual**  
**(Budgetary Basis)**  
**Year Ended June 30, 2014**  
**(Amounts in thousands)**

	Education			Economic Development		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
<b>Revenue</b>						
Taxes						
Liquid fuel tax						
Highways	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Vehicle registration fee tax	-	-	-	-	-	-
State vehicle weight tax	-	-	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	-	-	-
Conveyances tax	-	-	-	-	-	-
Environmental response tax	-	-	-	11,050	3,719	(7,331)
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	-	-	-	11,050	3,719	(7,331)
Non-taxes						
Interest and investment income	109	54	(55)	63	1,527	1,464
Charges for current services	39,171	35,057	(4,114)	11,130	5,805	(5,325)
Intergovernmental	23,386	32,758	9,372	4,762	4,451	(311)
Rentals	40	369	329	2,242	1,337	(905)
Fines, forfeitures and penalties	-	-	-	-	-	-
Licenses and fees	657	603	(54)	-	-	-
Revenues from private sources	182	322	140	250	-	(250)
Other	2,060	14,308	12,248	6	8,390	8,384
Total non-taxes	65,605	83,471	17,866	18,453	21,510	3,057
Total revenues	65,605	83,471	17,866	29,503	25,229	(4,274)
<b>Expenditures</b>						
General government	-	-	-	-	-	-
Public safety	-	-	-	1,100	-	1,100
Highways	-	-	-	-	-	-
Conservation of natural resources	-	-	-	-	-	-
Health	-	-	-	-	-	-
Welfare	-	-	-	-	-	-
Lower education	132,648	70,075	(62,573)	-	-	-
Culture and recreation	3,125	1,491	(1,634)	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	-	-	-	148,551	15,480	133,071
Other	-	-	-	-	-	-
Total expenditures	135,773	71,566	(64,207)	149,651	15,480	134,171
Excess (deficiency) of revenues over (under) expenditures	\$ (70,168)	\$ 11,905	\$ 82,073	\$ (120,148)	\$ 9,749	\$ 129,897

The accompanying notes are an integral part of the basic financial statements.

Employment			Regulatory		
Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
450	1,413	963	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	2,000	2,000	-
-	-	-	1,900	1,895	(5)
450	1,413	963	3,900	3,895	(5)
130	64	(66)	202	136	(66)
19,025	15,227	(3,798)	19,886	19,964	78
-	891	891	850	1,357	507
-	-	-	-	-	-
200	1,412	1,212	835	1,879	1,044
-	-	-	11,930	14,680	2,750
-	-	-	-	-	-
-	2,211	2,211	3,003	3,852	849
19,355	19,805	450	36,706	41,868	5,162
19,805	21,218	1,413	40,606	45,763	5,157
-	-	-	-	-	-
2,868	1,821	1,047	65,523	43,954	21,569
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
33,940	18,690	15,250	-	-	-
-	-	-	-	-	-
36,808	20,511	16,297	65,523	43,954	21,569
\$ (17,003)	\$ 707	\$ 17,710	\$ (24,917)	\$ 1,809	\$ 26,726

(continued)

**State of Hawaii**  
**Nonmajor Special Revenue Funds**  
**Combining Statement of Revenues and Expenditures – Budget and Actual**  
**(Budgetary Basis)**  
**Year Ended June 30, 2014**  
**(Amounts in thousands)**

	Hawaiian Programs			Administrative Support		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
<b>Revenue</b>						
Taxes						
Liquid fuel tax						
Highways	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Vehicle registration fee tax	-	-	-	-	-	-
State vehicle weight tax	-	-	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	2,052	1,911	(141)
Conveyances tax	-	-	-	-	-	-
Environmental response tax	-	-	-	-	-	-
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	-	-	-	2,052	1,911	(141)
Non-taxes						
Interest and investment income	138	86	(52)	440	242	(198)
Charges for current services	1	17	16	48,924	58,392	9,468
Intergovernmental	-	-	-	58	216	158
Rentals	10,014	15,504	5,490	6,235	6,519	284
Fines, forfeitures and penalties	-	-	-	270	218	(52)
Licenses and fees	-	-	-	18,670	21,332	2,662
Revenues from private sources	-	3,000	3,000	1,946	1,803	(143)
Other	4,200	2,579	(1,621)	12,766	64,377	51,611
Total non-taxes	14,353	21,186	6,833	89,309	153,099	63,790
Total revenues	14,353	21,186	6,833	91,361	155,010	63,649
<b>Expenditures</b>						
General government	-	-	-	103,064	45,375	57,689
Public safety	-	-	-	11,397	9,554	1,843
Highways	-	-	-	-	-	-
Conservation of natural resources	-	-	-	285	-	285
Health	-	-	-	-	-	-
Welfare	-	-	-	575	376	199
Lower education	-	-	-	7,000	6,953	47
Culture and recreation	-	-	-	13,419	10,560	2,859
Urban redevelopment and housing	29,879	11,884	(17,995)	-	-	-
Economic development and assistance	-	-	-	-	-	-
Other	-	-	-	18,194	6,272	11,922
Total expenditures	29,879	11,884	(17,995)	153,934	79,090	74,844
Excess (deficiency) of revenues over (under) expenditures	\$ (15,526)	\$ 9,302	\$ 24,828	\$ (62,573)	\$ 75,920	\$ 138,493

The accompanying notes are an integral part of the basic financial statements.

All Other			Total Special Revenue Funds		
Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ 87,665	\$ 87,080	\$ (585)
-	-	-	47,478	48,526	1,048
-	-	-	67,681	76,160	8,479
-	-	-	46,361	42,852	(3,509)
-	-	-	450	1,413	963
-	-	-	35,261	30,026	(5,235)
-	-	-	14,200	26,303	12,103
-	-	-	16,090	8,678	(7,412)
-	-	-	1,000	-	(1,000)
-	-	-	2,000	2,000	-
-	-	-	1,900	1,895	(5)
-	-	-	320,086	324,933	4,847
52	48	(4)	3,047	3,976	929
8,717	12,623	3,906	288,921	267,768	(21,153)
1,294	2,112	818	80,875	114,717	33,842
-	-	-	23,821	33,288	9,467
3,042	2,423	(619)	7,565	10,424	2,859
464	544	80	35,967	40,766	4,799
3	37	34	52,681	57,672	4,991
7,823	8,744	921	33,890	112,776	78,886
21,395	26,531	5,136	526,767	641,387	114,620
21,395	26,531	5,136	846,853	966,320	119,467
18,801	15,544	3,257	126,975	65,636	61,339
22,309	12,149	10,160	104,395	68,254	36,141
-	-	-	291,369	267,859	23,510
-	-	-	66,127	54,399	11,728
-	-	-	216,363	165,630	50,733
1,550	1,548	2	6,156	3,407	2,749
-	-	-	139,648	77,028	62,620
16,949	14,156	2,793	40,664	31,140	9,524
-	-	-	29,879	11,884	17,995
-	-	-	182,491	34,170	148,321
-	-	-	19,994	6,540	13,454
59,609	43,397	16,212	1,224,061	785,947	438,114
\$ (38,214)	\$ (16,866)	\$ 21,348	\$ (377,208)	\$ 180,373	\$ 557,581

(concluded)

**State of Hawaii**  
**Nonmajor Special Revenue Funds**  
**Reconciliation of the Budgetary to GAAP Basis**  
**Year Ended June 30, 2014**  
**(Amounts in thousands)**

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Excess of revenues over expenditures – actual (budgetary basis)	\$ 180,373
Reserve for encumbrance at year end *	161,390
Expenditures for liquidation of prior fiscal year encumbrances	(347,655)
Expenditures for unbudgeted programs, principally expenditures for capital projects accounts and revolving funds	68,359
Transfers	115,230
Accrued liabilities	(494,701)
Accrued revenues	<u>487,215</u>
Excess of revenues over expenditures – GAAP basis	<u>\$ 170,211</u>

\*Amount reflects the encumbrance balances (included in continuing appropriations) for budgeted programs only.

The accompanying notes are an integral part of the basic financial statements.

**State of Hawaii**  
**Nonmajor Proprietary Funds**  
**Combining Statement of Fund Net Position**  
**June 30, 2014**  
**(Amounts in thousands)**

	<b>Employer- Union Trust Fund</b>	<b>Water Pollution Control Revolving Fund</b>	<b>Drinking Water Treatment Revolving Loan Fund</b>	<b>Total Nonmajor Proprietary Funds</b>
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 30,180	\$ 128,693	\$ 69,443	\$ 228,316
Investments	6,792	-	-	6,792
Receivables				
Accounts and accrued interest	-	605	136	741
Promissory note receivable	-	25,870	5,477	31,347
Federal government	-	48	55	103
Premiums	49,248	-	-	49,248
Other	4,878	326	638	5,842
Prepaid expenses and other assets	5,401	-	-	5,401
Total current assets	<u>96,499</u>	<u>155,542</u>	<u>75,749</u>	<u>327,790</u>
Capital assets – Equipment	9,956	85	1,355	11,396
Less: Accumulated depreciation	<u>(6,520)</u>	<u>(62)</u>	<u>(1,120)</u>	<u>(7,702)</u>
Net capital assets	3,436	23	235	3,694
Promissory note receivable	-	310,150	72,894	383,044
Other	-	12,488	-	12,488
Total noncurrent assets	<u>3,436</u>	<u>322,661</u>	<u>73,129</u>	<u>399,226</u>
Total assets	<u>\$ 99,935</u>	<u>\$ 478,203</u>	<u>\$ 148,878</u>	<u>\$ 727,016</u>
<b>Liabilities</b>				
Current liabilities				
Vouchers and contracts payable	\$ 135	\$ 143	\$ 487	\$ 765
Other accrued liabilities	2,478	-	-	2,478
Accrued vacation, current portion	65	97	42	204
Benefits claims payable	3,949	-	-	3,949
Premiums payable	40,089	-	-	40,089
Total current liabilities	<u>46,716</u>	<u>240</u>	<u>529</u>	<u>47,485</u>
Noncurrent liabilities				
Accrued vacation	190	195	105	490
Other postemployment benefit liability	1,900	1,266	600	3,766
Total liabilities	<u>48,806</u>	<u>1,701</u>	<u>1,234</u>	<u>51,741</u>
<b>Net Position</b>				
Net investment in capital assets	3,435	23	237	3,695
Restricted for bond requirements and other	-	476,479	147,407	623,886
Unrestricted	47,694	-	-	47,694
Total net position	<u>\$ 51,129</u>	<u>\$ 476,502</u>	<u>\$ 147,644</u>	<u>\$ 675,275</u>

The accompanying notes are an integral part of the basic financial statements.

**State of Hawaii**  
**Nonmajor Proprietary Funds**  
**Combining Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Year Ended June 30, 2014**  
**(Amounts in thousands)**

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	Employer- Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total Nonmajor Proprietary Funds
<b>Operating revenues</b>				
Administrative fees	\$ 4,677	\$ 1,224	\$ 2,043	\$ 7,944
Premium revenue – self insurance	57,562	-	-	57,562
Increase in premium reserves	14,516	-	-	14,516
Other	555	2,122	243	2,920
Total operating revenue	77,310	3,346	2,286	82,942
<b>Operating expenses</b>				
Personnel services	2,879	1,785	1,073	5,737
Depreciation	1,371	11	67	1,449
Repairs and maintenance	8	-	85	93
General administration	2,220	166	1,974	4,360
Claims	69,067	-	-	69,067
Other	2,337	2,008	1,981	6,326
Total operating expenses	77,882	3,970	5,180	87,032
Operating loss	(572)	(624)	(2,894)	(4,090)
<b>Nonoperating revenues</b>				
Interest and investment income	266	401	192	859
Loss before capital contributions	(306)	(223)	(2,702)	(3,231)
Capital contributions	-	10,678	23,647	34,325
Change in net position	(306)	10,455	20,945	31,094
<b>Net position</b>				
Beginning of year	51,435	466,047	126,699	644,181
End of year	\$ 51,129	\$ 476,502	\$ 147,644	\$ 675,275

The accompanying notes are an integral part of the basic financial statements.

**State of Hawaii**  
**Nonmajor Proprietary Funds**  
**Combining Statement of Cash Flows**  
**Year Ended June 30, 2014**  
**(Amounts in thousands)**

	<b>Employer- Union Trust Fund</b>	<b>Water Pollution Control Revolving Fund</b>	<b>Drinking Water Treatment Revolving Loan Fund</b>	<b>Total Nonmajor Proprietary Funds</b>
<b>Cash flows from operating activities</b>				
Cash received from employer and employee for premium and benefit payments	\$ 552,132	\$ -	\$ -	\$ 552,132
Cash paid to suppliers	(2,383)	(140)	(1,931)	(4,454)
Cash paid to employees	(2,429)	(1,551)	(958)	(4,938)
Cash paid for premiums and benefit payments	(523,380)	-	-	(523,380)
Reserves returned by insurance carriers	53	-	-	53
Interest income from notes receivable	-	2,130	227	2,357
Administrative loan fees	-	1,228	2,033	3,261
Principal repayments on notes receivable	-	27,353	4,769	32,122
Disbursement of notes receivable proceeds	-	(59,878)	(23,763)	(83,641)
Net cash provided by (used in) operating activities	<u>23,993</u>	<u>(30,858)</u>	<u>(19,623)</u>	<u>(26,488)</u>
<b>Cash flows from noncapital financing activities</b>				
State capital contributions	-	2,200	1,825	4,025
Proceeds from federal operating grants	-	8,416	22,140	30,556
Disbursement of federal operating grants	-	(296)	-	(296)
Net cash provided by noncapital financing activities	<u>-</u>	<u>10,320</u>	<u>23,965</u>	<u>34,285</u>
<b>Cash flows from investing activities</b>				
Purchase of investments	(6,792)	-	-	(6,792)
Interest received and change in fair value of investments	310	387	177	874
Net cash provided by (used in) investing activities	<u>(6,482)</u>	<u>387</u>	<u>177</u>	<u>(5,918)</u>
Net increase (decrease) in cash and cash equivalents	<u>17,511</u>	<u>(20,151)</u>	<u>4,519</u>	<u>1,879</u>
<b>Cash and cash equivalents, including restricted amounts</b>				
Beginning of year	12,669	148,844	64,924	226,437
End of year	<u>\$ 30,180</u>	<u>\$ 128,693</u>	<u>\$ 69,443</u>	<u>\$ 228,316</u>
<b>Reconciliation of operating loss to net cash provided by (used in) operating activities</b>				
Operating loss	\$ (572)	\$ (624)	\$ (2,894)	\$ (4,090)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities				
Depreciation	1,371	11	67	1,449
Premium reserves held by insurance companies	23,152	-	-	23,152
Principal forgiveness of loan	-	2,116	1,959	4,075
Change in assets and liabilities				
Receivables	(6,533)	(32,563)	(19,017)	(58,113)
Deposits	-	-	-	-
Prepaid and other expenses	(46)	-	-	(46)
Vouchers and contracts payable	(56)	60	152	156
Other accrued liabilities	5,393	142	110	5,645
Benefits claim payable	1,284	-	-	1,284
Net cash provided by (used in) operating activities	<u>\$ 23,993</u>	<u>\$ (30,858)</u>	<u>\$ (19,623)</u>	<u>\$ (26,488)</u>

The accompanying notes are an integral part of the basic financial statements.



**State of Hawaii**  
**Fiduciary Funds**  
**Combining Statement of Fiduciary Net Position – Agency Funds**  
**June 30, 2014**  
**(Amounts in thousands)**

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	<b>Agency Funds</b>			<b>Total Agency Funds</b>
	<b>Tax Collections</b>	<b>Custodial</b>	<b>Other</b>	
<b>Assets</b>				
Cash and cash equivalents	\$ 4,836	\$ 223,561	\$ 10,706	\$ 239,103
Receivables – taxes	-	-	41,694	41,694
Investments	35,463	317,948	76,370	429,781
Other assets – primarily due from individuals, businesses and counties	18,653	73,614	-	92,267
Total assets	<u>\$ 58,952</u>	<u>\$ 615,123</u>	<u>\$ 128,770</u>	<u>\$ 802,845</u>
<b>Liabilities</b>				
Vouchers payable	\$ 58,952	\$ -	\$ 1,660	\$ 60,612
Due to individuals, businesses and counties	-	615,123	127,110	742,233
Total liabilities	<u>\$ 58,952</u>	<u>\$ 615,123</u>	<u>\$ 128,770</u>	<u>\$ 802,845</u>

The accompanying notes are an integral part of the basic financial statements.

**State of Hawaii**  
**Fiduciary Funds**  
**Combining Statement of Changes in Assets and Liabilities – Agency Funds**  
**Year Ended June 30, 2014**  
**(Amounts in thousands)**

	<b>Balance July 1, 2013</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2014</b>
<b>Tax collections</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 2,137	\$ 7,851,321	\$ (7,848,622)	\$ 4,836
Due from individuals, businesses and counties	(26,506)	7,896,479	(7,851,320)	18,653
Investments	33,479	35,463	(33,479)	35,463
<b>Total assets</b>	<b>\$ 9,110</b>	<b>\$ 15,783,263</b>	<b>\$ (15,733,421)</b>	<b>\$ 58,952</b>
<b>Liabilities</b>				
Vouchers payable	\$ 9,110	\$ 58,952	\$ (9,110)	\$ 58,952
<b>Total liabilities</b>	<b>\$ 9,110</b>	<b>\$ 58,952</b>	<b>\$ (9,110)</b>	<b>\$ 58,952</b>
<b>Custodial</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 208,917	\$ 4,412,097	\$ (4,397,453)	\$ 223,561
Due from individuals, businesses and counties	58,159	483,927	(468,472)	73,614
Investments	279,636	317,948	(279,636)	317,948
<b>Total assets</b>	<b>\$ 546,712</b>	<b>\$ 5,213,972</b>	<b>\$ (5,145,561)</b>	<b>\$ 615,123</b>
<b>Liabilities</b>				
Vouchers payable	\$ 7	\$ -	\$ (7)	\$ -
Due to individuals, businesses and counties	546,705	4,449,541	(4,381,123)	615,123
<b>Total liabilities</b>	<b>\$ 546,712</b>	<b>\$ 4,449,541</b>	<b>\$ (4,381,130)</b>	<b>\$ 615,123</b>
<b>Other</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 5,629	\$ 29,275	\$ (24,198)	\$ 10,706
Receivables	39,078	41,694	(39,078)	41,694
Investments	82,856	76,370	(82,856)	76,370
<b>Total assets</b>	<b>\$ 127,563</b>	<b>\$ 147,339</b>	<b>\$ (146,132)</b>	<b>\$ 128,770</b>
<b>Liabilities</b>				
Vouchers payable	\$ 597	\$ 1,660	\$ (597)	\$ 1,660
Due to individuals, businesses and counties	126,966	31,891	(31,747)	127,110
<b>Total liabilities</b>	<b>\$ 127,563</b>	<b>\$ 33,551</b>	<b>\$ (32,344)</b>	<b>\$ 128,770</b>
<b>Total – All agency funds</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 216,683	\$ 12,292,693	\$ (12,270,273)	\$ 239,103
Receivables	39,078	41,694	(39,078)	41,694
Due from individuals, businesses and counties	31,653	8,380,406	(8,319,792)	92,267
Investments	395,971	429,781	(395,971)	429,781
<b>Total assets</b>	<b>\$ 683,385</b>	<b>\$ 21,144,574</b>	<b>\$ (21,025,114)</b>	<b>\$ 802,845</b>
<b>Liabilities</b>				
Vouchers payable	\$ 9,714	\$ 60,612	\$ (9,714)	\$ 60,612
Due to individuals, businesses and counties	673,671	4,481,432	(4,412,870)	742,233
<b>Total liabilities</b>	<b>\$ 683,385</b>	<b>\$ 4,542,044</b>	<b>\$ (4,422,584)</b>	<b>\$ 802,845</b>

The accompanying notes are an integral part of the basic financial statements.

## **PART III: STATISTICAL SECTION**

**State of Hawaii**  
**Statistical Section (Unaudited)**  
**June 30, 2014**

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This Part of the State's comprehensive annual financial report presents detailed information as a context for understanding the information in the financial statements, note disclosures, and required supplementary information on the State's overall financial health.

<b><u>Contents</u></b>	<b><u>Page(s)</u></b>
<b>Financial Trends Information:</b> These schedules contain trend information to help the reader understand how the State's financial performance and well-being have changed over time.	134–143
<b>Revenue Capacity Information:</b> These schedules contain information to help the reader assess the State's most significant local revenue sources, the general excise tax and net income tax.	144–151
<b>Debt Capacity Information:</b> These schedules present information to help the reader assess the affordability of the State's current levels of outstanding debt and the State's ability to issue additional debt in the future.	152–158
<b>Demographic and Economic Information:</b> These schedules offer demographic and economic indicators to help the reader understand the environment within which the State's financial activities take place.	159–161
<b>Operating Information:</b> These schedules contain service and infrastructure data to help the reader understand how the information in the State's financial report relates to the services provided and the activities performed by the State.	162–167

**Sources:** *Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.*

**State of Hawaii**  
**Financial Trends Information**  
**Net Position by Component (Accrual Basis of Accounting)**  
**Ten Years Ended June 30, 2014**  
**(Amounts in thousands)**

	<b>Fiscal Year Ended June 30,</b>				
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Governmental activities</b>					
Net investment in capital assets	\$ 2,772,220	\$ 2,863,379	\$ 2,794,481	\$ 3,326,245	\$ 3,118,606
Restricted	1,128,678	1,051,548	930,294	917,730	655,238
Unrestricted	(3,096,065)	(2,669,391)	(2,394,874)	(2,384,187)	(1,306,716)
Total governmental activities net position	\$ 804,833	\$ 1,245,536	\$ 1,329,901	\$ 1,859,788	\$ 2,467,128
<b>Business-type activities</b>					
Net investment in capital assets	\$ 1,653,902	\$ 1,599,483	\$ 1,560,267	\$ 1,476,136	\$ 1,469,676
Restricted	1,160,551	1,068,146	966,042	956,894	922,846
Unrestricted	1,050,981	899,740	649,583	579,383	493,163
Total business-type activities net position	\$ 3,865,434	\$ 3,567,369	\$ 3,175,892	\$ 3,012,413	\$ 2,885,685
<b>Primary government</b>					
Net investment in capital assets	\$ 4,426,122	\$ 4,462,862	\$ 4,354,748	\$ 4,802,381	\$ 4,588,282
Restricted	2,289,229	2,119,694	1,896,336	1,874,624	1,578,084
Unrestricted	(2,045,084)	(1,769,651)	(1,745,291)	(1,804,804)	(813,553)
Total primary government net position	\$ 4,670,267	\$ 4,812,905	\$ 4,505,793	\$ 4,872,201	\$ 5,352,813

**Note:** Amounts prior to fiscal 2014 have not been restated for GASB Statement No. 65.

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2009	2008	2007	2006	2005
\$ 3,298,144	\$ 3,987,244	\$ 3,597,174	\$ 3,709,504	\$ 4,318,111
641,031	909,877	569,006	1,285,902	1,163,684
(471,543)	121,480	1,578,412	1,267,569	858,907
<u>\$ 3,467,632</u>	<u>\$ 5,018,601</u>	<u>\$ 5,744,592</u>	<u>\$ 6,262,975</u>	<u>\$ 6,340,702</u>
\$ 1,527,018	\$ 1,458,305	\$ 1,278,608	\$ 1,272,249	\$ 1,186,703
782,569	730,061	655,055	217,478	189,093
597,624	1,013,447	1,304,586	1,150,363	1,089,615
<u>\$ 2,907,211</u>	<u>\$ 3,201,813</u>	<u>\$ 3,238,249</u>	<u>\$ 2,640,090</u>	<u>\$ 2,465,411</u>
\$ 4,825,162	\$ 5,445,549	\$ 4,875,782	\$ 4,981,753	\$ 5,504,814
1,423,600	1,639,938	1,224,061	1,503,380	1,352,777
126,081	1,134,927	2,882,998	2,417,932	1,948,522
<u>\$ 6,374,843</u>	<u>\$ 8,220,414</u>	<u>\$ 8,982,841</u>	<u>\$ 8,903,065</u>	<u>\$ 8,806,113</u>

**State of Hawaii**  
**Financial Trends Information**  
**Changes in Net Position (Accrual Basis of Accounting)**  
**Ten Years Ended June 30, 2014**  
**(Amounts in thousands)**

	<b>Fiscal Year Ended June 30,</b>				
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Expenses</b>					
Governmental activities					
General government	\$ 567,941	\$ 531,839	\$ 552,788	\$ 535,434	\$ 421,327
Public safety	533,727	451,946	502,002	471,459	538,110
Highways	554,039	490,091	516,924	450,548	466,322
Conservation of natural resources	101,587	52,208	96,349	89,021	81,561
Health	849,493	813,190	773,288	816,525	858,476
Welfare	2,879,813	2,798,053	2,464,582	2,553,829	2,348,190
Lower education	2,685,037	2,592,125	2,598,444	2,545,980	2,616,768
Higher education	693,292	654,611	672,716	707,381	700,335
Other education	21,766	20,086	16,753	14,018	14,034
Culture and recreation	104,303	94,679	111,628	108,697	108,247
Urban redevelopment and housing	137,160	173,677	23,888	66,144	101,505
Economic development and assistance	166,455	172,602	209,460	238,315	209,611
Interest expense	239,760	241,677	243,938	239,836	210,243
Total governmental activities expenses	<u>9,534,373</u>	<u>9,086,784</u>	<u>8,782,760</u>	<u>8,837,187</u>	<u>8,674,729</u>
Business-type activities					
Airports	346,699	366,918	353,541	354,368	336,127
Harbors	89,327	90,548	84,826	80,355	68,291
Unemployment compensation	244,947	336,931	468,610	561,548	686,141
Nonmajor proprietary funds	87,031	66,119	169,166	250,346	256,205
Total business-type activities expenses	<u>768,004</u>	<u>860,516</u>	<u>1,076,143</u>	<u>1,246,617</u>	<u>1,346,764</u>
Total primary government expenses	<u>\$ 10,302,377</u>	<u>\$ 9,947,300</u>	<u>\$ 9,858,903</u>	<u>\$ 10,083,804</u>	<u>\$ 10,021,493</u>
<b>Program revenues</b>					
Governmental activities					
Charges for services					
General government	\$ 223,066	\$ 267,081	\$ 266,878	\$ 270,078	\$ 231,629
Health	130,338	56,963	32,339	46,215	98,547
Other	287,937	170,603	121,928	112,479	111,295
Operating grants and contributions	2,660,770	2,589,537	2,370,437	2,837,464	2,598,141
Capital grants and contributions	97,290	96,184	97,322	132,825	144,445
Total governmental activities program revenues	<u>3,399,401</u>	<u>3,180,368</u>	<u>2,888,904</u>	<u>3,399,061</u>	<u>3,184,057</u>
Business-type activities					
Charges for services					
Airports	404,442	431,708	343,279	387,484	324,577
Unemployment Compensation	353,546	507,096	533,963	535,243	486,476
Others	203,979	215,243	272,317	341,707	344,889
Capital grants and contributions	98,628	64,313	85,899	75,324	98,099
Total business-type activities program revenues	<u>1,060,595</u>	<u>1,218,360</u>	<u>1,235,458</u>	<u>1,339,758</u>	<u>1,254,041</u>
Total primary government program revenues	<u>\$ 4,459,996</u>	<u>\$ 4,398,728</u>	<u>\$ 4,124,362</u>	<u>\$ 4,738,819</u>	<u>\$ 4,438,098</u>
<b>Net (expense) revenue</b>					
Governmental activities	\$ (6,134,972)	\$ (5,906,416)	\$ (5,893,856)	\$ (5,438,126)	\$ (5,490,672)
Business-type activities	292,591	357,844	159,315	93,141	(92,723)
Total primary government net expenses	<u>\$ (5,842,381)</u>	<u>\$ (5,548,572)</u>	<u>\$ (5,734,541)</u>	<u>\$ (5,344,985)</u>	<u>\$ (5,583,395)</u>

**Note:** Amounts prior to fiscal 2014 have not been restated for GASB Statement No. 65.

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
\$ 564,356	\$ 548,439	\$ 541,889	\$ 455,008	\$ 494,174
464,897	414,463	378,409	336,362	248,685
487,391	490,754	385,267	646,336	282,339
119,705	74,411	68,745	76,490	79,545
843,826	895,413	833,669	690,265	561,155
2,140,202	1,877,188	1,773,505	1,709,526	1,615,721
2,656,592	2,385,056	2,288,641	2,151,891	1,758,596
878,126	815,116	759,777	678,338	559,379
29,935	23,206	21,127	19,183	19,667
106,583	107,676	92,444	98,121	72,920
145,710	187,861	73,991	87,789	53,077
158,808	157,421	148,164	215,578	214,842
127,576	140,032	118,708	172,673	169,738
<u>8,723,707</u>	<u>8,117,036</u>	<u>7,484,336</u>	<u>7,337,560</u>	<u>6,129,838</u>
347,089	354,554	329,942	292,086	273,949
124,611	80,344	76,830	61,408	64,568
437,553	159,098	112,411	105,786	112,329
38,672	22,619	4,871	2,587	2,883
<u>947,925</u>	<u>616,615</u>	<u>524,054</u>	<u>461,867</u>	<u>453,729</u>
<u>\$ 9,671,632</u>	<u>\$ 8,733,651</u>	<u>\$ 8,008,390</u>	<u>\$ 7,799,427</u>	<u>\$ 6,583,567</u>
\$ 206,431	\$ 203,336	\$ 168,877	\$ 136,113	\$ 146,242
99,788	102,032	98,681	132,360	81,607
119,126	101,390	110,942	131,143	127,819
2,260,551	1,887,298	1,820,886	1,726,217	1,667,492
145,771	130,643	75,697	279,323	143,183
<u>2,831,667</u>	<u>2,424,699</u>	<u>2,275,083</u>	<u>2,405,156</u>	<u>2,166,343</u>
290,464	266,820	256,843	251,678	241,326
169,976	87,486	138,070	181,146	165,337
84,692	95,013	93,650	86,360	77,501
103,195	81,967	148,597	81,145	35,048
<u>648,327</u>	<u>531,286</u>	<u>637,160</u>	<u>600,329</u>	<u>519,212</u>
<u>\$ 3,479,994</u>	<u>\$ 2,955,985</u>	<u>\$ 2,912,243</u>	<u>\$ 3,005,485</u>	<u>\$ 2,685,555</u>
\$ (5,892,040)	\$ (5,692,337)	\$ (5,209,253)	\$ (4,932,404)	\$ (3,963,495)
(299,598)	(85,329)	113,106	138,462	65,483
<u>\$ (6,191,638)</u>	<u>\$ (5,777,666)</u>	<u>\$ (5,096,147)</u>	<u>\$ (4,793,942)</u>	<u>\$ (3,898,012)</u>

(continued)



**State of Hawaii**  
**Financial Trends Information**  
**Changes in Net Position (Accrual Basis of Accounting)**  
**Ten Years Ended June 30, 2014**  
**(Amounts in thousands)**

	<b>Fiscal Year Ended June 30,</b>				
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>General revenues and other changes in net position</b>					
Governmental activities					
Taxes					
General excise tax	\$ 2,816,346	\$ 2,991,792	\$ 2,774,636	\$ 2,507,980	\$ 2,279,310
Net income tax – corporations and individuals	1,840,890	1,795,683	1,633,085	1,477,624	1,408,965
Public service companies tax	166,179	163,930	150,528	117,940	157,661
Transient accommodations tax	188,721	186,377	138,529	60,839	32,635
Tobacco and liquor tax	155,990	161,066	170,824	173,851	149,596
Liquid fuel tax	88,707	87,645	88,842	91,265	82,780
Tax on premiums of insurance companies	139,074	133,585	119,472	140,586	105,848
Vehicle weight and registration tax	124,686	121,605	98,187	59,476	58,659
Rental motor/tour vehicle surcharge tax	42,853	52,112	106,417	43,892	40,401
Franchise tax	38,983	22,673	7,229	33,682	20,666
Other tax	96,131	80,081	70,873	67,799	32,165
Interest and investment income	13,163	25,502	5,347	55,852	124,516
Other	-	-	-	-	(3,034)
Total governmental activities	<u>5,711,723</u>	<u>5,822,051</u>	<u>5,363,969</u>	<u>4,830,786</u>	<u>4,490,168</u>
Business-type activities					
Interest and investment income	12,805	14,633	4,164	33,587	68,950
Other	-	19,000	-	-	-
Total business-type activities	<u>12,805</u>	<u>33,633</u>	<u>4,164</u>	<u>33,587</u>	<u>68,950</u>
Total primary government	<u>\$ 5,724,528</u>	<u>\$ 5,855,684</u>	<u>\$ 5,368,133</u>	<u>\$ 4,864,373</u>	<u>\$ 4,559,118</u>
<b>Changes in net position</b>					
Governmental activities	\$ (423,249)	\$ (84,365)	\$ (529,887)	\$ (607,340)	\$ (1,000,504)
Business-type activities	305,396	391,477	163,479	126,728	(23,773)
Total primary government	<u>\$ (117,853)</u>	<u>\$ 307,112</u>	<u>\$ (366,408)</u>	<u>\$ (480,612)</u>	<u>\$ (1,024,277)</u>

**Note:** Amounts prior to fiscal 2014 have not been restated for GASB Statement No. 65.

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<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
\$ 2,410,756	\$ 2,597,121	\$ 2,659,339	\$ 2,359,316	\$ 2,145,603
1,366,576	1,634,117	1,620,452	1,675,131	1,490,964
126,069	127,481	124,017	120,678	108,686
14,408	17,756	7,382	124,133	110,723
135,388	134,886	131,813	134,216	128,982
88,006	90,123	87,179	84,719	82,733
95,181	96,332	96,385	89,778	84,822
59,392	60,842	59,422	56,101	54,057
39,751	49,196	49,479	45,885	41,886
28,075	20,213	19,012	18,324	38,520
19,215	26,149	27,523	46,850	34,191
(42,051)	112,024	102,295	99,546	64,236
305	106	-	-	(2,847)
<u>4,341,071</u>	<u>4,966,346</u>	<u>4,984,298</u>	<u>4,854,677</u>	<u>4,382,556</u>
4,639	48,893	82,046	40,122	27,784
-	-	-	-	(297)
<u>4,639</u>	<u>48,893</u>	<u>82,046</u>	<u>40,122</u>	<u>27,487</u>
<u>\$ 4,345,710</u>	<u>\$ 5,015,239</u>	<u>\$ 5,066,344</u>	<u>\$ 4,894,799</u>	<u>\$ 4,410,043</u>
\$ (1,550,969)	\$ (725,991)	\$ (224,955)	\$ (77,727)	\$ 419,061
(294,959)	(36,436)	195,152	178,574	92,970
<u>\$ (1,845,928)</u>	<u>\$ (762,427)</u>	<u>\$ (29,803)</u>	<u>\$ 100,847</u>	<u>\$ 512,031</u>

(concluded)

**State of Hawaii**  
**Financial Trends Information**  
**Fund Balances – Governmental Funds (Modified Accrual Basis of Accounting)**  
**Ten Years Ended June 30, 2014**  
**(Amounts in thousands)**

	Fiscal Year Ended June 30,				
	2014	2013	2012	2011	2010
<b>General Fund</b>					
Reserved	N/A	N/A	N/A	N/A	\$ 243,485
Unreserved	N/A	N/A	N/A	N/A	(210,551)
Total General Fund	N/A	N/A	N/A	N/A	\$ 32,934
<b>All other governmental funds</b>					
Reserved	N/A	N/A	N/A	N/A	\$ 2,275,968
Unreserved, reported in					
Capital projects fund	N/A	N/A	N/A	N/A	(1,651,855)
Special revenue funds	N/A	N/A	N/A	N/A	293,625
Total all other governmental funds	N/A	N/A	N/A	N/A	\$ 917,738
<b>General Fund (under GASB 54)</b>					
Assigned fund balance	\$ 256,483	\$ 271,020	\$ 236,779	\$ 210,164	N/A
Unassigned fund balance	1,079,180	1,154,253	570,659	346,882	N/A
Total General Fund	\$ 1,335,663	\$ 1,425,273	\$ 807,438	\$ 557,046	N/A
<b>All other governmental funds (under GASB 54)</b>					
Restricted fund balance	\$ 27,145	\$ 21,854	\$ 109	\$ 21,582	N/A
Committed fund balance	497,932	486,240	518,374	600,125	N/A
Assigned fund balance	739,279	612,762	532,466	339,337	N/A
Unassigned fund balance	(588,405)	(611,097)	(408,575)	(766,665)	N/A
Total all other governmental funds	\$ 675,951	\$ 509,759	\$ 642,374	\$ 194,379	N/A

**Note:** Beginning fiscal year 2011, the fund balance categories were reclassified as a result of implementing GASB Statement No. 54. Fund balance has not been restated for prior years.

N/A Not applicable

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2009	2008	2007	2006	2005
\$ 272,557	\$ 406,884	\$ 414,899	\$ 249,581	\$ 219,800
(87,537)	567,474	881,311	1,013,988	745,770
\$ 185,020	\$ 974,358	\$ 1,296,210	\$ 1,263,569	\$ 965,570
\$ 2,801,012	\$ 2,344,961	\$ 1,643,345	\$ 1,851,194	\$ 1,552,524
(2,019,696)	(1,788,357)	(1,111,924)	(878,164)	(615,763)
255,844	410,265	556,963	637,664	637,585
\$ 1,037,160	\$ 966,869	\$ 1,088,384	\$ 1,610,694	\$ 1,574,346
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A

**State of Hawaii**  
**Financial Trends Information**  
**Changes in Fund Balances – Governmental Funds**  
**(Modified Accrual Basis of Accounting)**  
**Ten Years Ended June 30, 2014**  
**(Amounts in thousands)**

	Fiscal Year Ended June 30,				
	2014	2013	2012	2011	2010
<b>Revenues</b>					
Taxes					
General excise tax	\$ 2,816,346	\$ 2,991,792	\$ 2,774,636	\$ 2,507,980	\$ 2,279,310
Net income tax – corporations and individuals	1,840,963	1,804,409	1,633,412	1,473,188	1,408,965
Public service companies tax	166,179	163,930	150,528	117,940	157,661
Transient accommodations tax	188,721	186,377	138,529	60,839	32,635
Tobacco and liquor tax	155,990	161,066	170,824	173,851	149,596
Liquid fuel tax	88,707	87,645	88,842	91,265	82,780
Tax on premiums of insurance companies	139,074	133,585	119,472	140,586	105,848
Vehicle weight and registration tax	124,686	121,605	98,187	59,476	58,659
Rental motor/tour vehicle surcharge tax	42,853	52,112	106,417	43,892	40,401
Franchise tax	38,983	22,673	7,229	33,682	20,666
Other	96,131	80,079	70,873	67,799	32,165
Total taxes	5,698,633	5,805,273	5,358,949	4,770,498	4,368,686
Interest and investment income (loss)	13,163	25,502	5,347	55,854	124,518
Charges for current services	363,791	369,269	337,765	348,108	364,893
Intergovernmental	2,650,876	2,372,480	2,238,639	2,567,266	2,432,369
Rentals	31,846	28,633	25,421	23,319	19,712
Fines, forfeitures and penalties	33,087	36,802	35,083	34,712	35,982
Licenses and fees	47,209	46,839	46,390	41,557	36,641
Revenues from private sources	112,916	104,670	65,085	54,857	57,850
Other	173,483	235,516	152,091	343,318	182,367
Total revenues	9,125,004	9,024,984	8,264,770	8,239,489	7,623,018
<b>Expenditures</b>					
Current					
General government	543,129	408,538	487,596	487,848	436,290
Public safety	519,954	432,024	454,957	423,716	457,058
Highways	403,559	418,991	414,629	376,780	442,971
Conservation of natural resources	108,703	92,601	98,428	93,600	88,873
Health	828,088	779,755	729,841	757,482	801,923
Welfare	2,945,370	2,773,241	2,443,936	2,526,743	2,315,726
Lower education	2,603,774	2,358,763	2,330,130	2,208,303	2,325,066
Higher education	693,292	654,611	672,716	707,380	700,335
Other education	21,766	20,086	16,753	14,018	14,033
Culture and recreation	107,846	107,940	109,974	117,306	108,536
Urban redevelopment and housing	65,228	66,243	48,484	73,789	115,796
Economic development and assistance	158,379	157,468	147,445	158,104	166,320
Housing	63,683	112,614	46,133	61,352	24,153
Other	29,818	32,716	12,108	12,223	4,460
Debt service					
Principal	458,983	399,382	313,721	191,244	179,624
Interest and others	278,315	288,267	274,039	266,737	248,551
Total expenditures	9,829,887	9,103,240	8,600,890	8,476,625	8,429,715
Excess (deficiency) of revenues over (under) expenditures	(704,883)	(78,256)	(336,120)	(237,136)	(806,697)
<b>Other financing sources (uses)</b>					
Proceeds from borrowing and refunding	948,190	1,066,848	1,600,308	-	1,150,482
Payments to escrow agent	(185,560)	(503,372)	(565,801)	-	(619,708)
Transfers in	1,066,780	1,033,917	950,717	921,433	721,810
Transfers out	(1,066,780)	(1,033,917)	(950,717)	(921,433)	(721,810)
Other	18,835	-	-	37,889	4,415
Total other financing sources	781,465	563,476	1,034,507	37,889	535,189
Net change in fund balances	\$ 76,582	\$ 485,220	\$ 698,387	\$ (199,247)	\$ (271,508)

	2009	2008	2007	2006	2005
\$	2,410,756	\$ 2,597,121	\$ 2,632,485	\$ 2,359,316	\$ 2,145,603
	1,373,893	1,637,265	1,618,570	1,664,331	1,484,664
	126,069	127,481	124,017	120,678	108,686
	14,408	17,756	7,382	124,133	110,723
	135,388	134,886	131,813	134,216	128,982
	88,006	90,123	87,179	84,719	82,733
	95,181	96,332	96,385	89,778	84,822
	59,392	60,842	59,422	56,101	54,057
	39,751	49,196	49,479	48,092	43,950
	28,075	20,213	2,000	18,324	38,520
	19,215	26,149	44,535	46,850	34,191
	<u>4,390,134</u>	<u>4,857,364</u>	<u>4,853,267</u>	<u>4,746,538</u>	<u>4,316,931</u>
	(42,051)	115,247	122,606	82,013	58,236
	357,078	341,371	318,235	343,424	298,670
	2,090,058	1,807,376	1,727,895	1,601,005	1,574,899
	21,107	20,152	21,639	32,493	28,732
	33,888	32,618	28,488	26,827	27,482
	33,324	31,731	30,837	29,364	27,297
	63,401	59,508	39,401	39,647	41,836
	<u>246,369</u>	<u>131,291</u>	<u>127,444</u>	<u>128,283</u>	<u>101,387</u>
	<u>7,193,308</u>	<u>7,396,658</u>	<u>7,269,812</u>	<u>7,029,594</u>	<u>6,475,470</u>
	597,210	537,541	458,236	493,301	508,154
	435,414	411,152	376,032	322,578	291,369
	442,421	406,795	337,862	267,213	301,784
	120,693	103,596	107,578	86,628	74,188
	798,026	863,914	832,333	685,679	564,807
	2,119,481	1,857,473	1,770,707	1,709,810	1,614,559
	2,454,668	2,201,901	2,305,280	1,984,129	1,798,208
	878,127	815,116	759,777	678,338	559,379
	29,912	23,206	20,122	19,183	19,667
	107,302	110,404	92,574	87,478	73,774
	179,819	255,783	170,614	60,725	52,698
	169,547	149,075	147,146	215,559	214,377
	1,909	-	-	-	-
	1,175	5,880	7,248	4,634	4,784
	204,604	231,478	271,010	247,935	128,378
	<u>197,118</u>	<u>247,257</u>	<u>231,723</u>	<u>199,642</u>	<u>193,570</u>
	<u>8,737,426</u>	<u>8,220,571</u>	<u>7,888,242</u>	<u>7,062,832</u>	<u>6,399,696</u>
	<u>(1,544,118)</u>	<u>(823,913)</u>	<u>(618,430)</u>	<u>(33,238)</u>	<u>75,774</u>
	1,174,768	445,687	395,303	367,585	1,491,445
	(349,697)	(29,510)	-	-	(947,869)
	761,393	803,456	796,195	499,655	495,098
	(761,393)	(803,456)	(796,195)	(499,655)	(495,098)
	-	-	-	-	(2,847)
	<u>825,071</u>	<u>416,177</u>	<u>395,303</u>	<u>367,585</u>	<u>540,729</u>
\$	<u>(719,047)</u>	<u>(407,736)</u>	<u>(223,127)</u>	<u>\$ 334,347</u>	<u>\$ 616,503</u>

**State of Hawaii**  
**Revenue Capacity Information**  
**Personal Income by Industry**  
**Ten Years Ended June 30, 2014**  
**(Amounts in millions)**

	Fiscal Year Ended June 30,				
	2014	2013	2012	2011	2010
<b>Farm earnings</b>	\$ 349	\$ 243	\$ 288	\$ 288	\$ 250
<b>Nonfarm wage and salary worker</b>					
Goods-producing industries					
Forestry, fishing-related activities and other	66	60	60	42	45
Mining	37	39	35	33	51
Construction	3,328	3,236	3,046	2,843	2,598
Manufacturing – durable and nondurable goods	833	804	767	768	766
Subtotal goods – producing industries	4,264	4,139	3,908	3,686	3,460
Service-producing industries					
Transportation, communication and utilities	2,316	2,178	1,889	1,783	1,718
Trade	4,089	3,929	3,768	3,666	3,651
Information	711	692	645	711	732
Finance, insurance and real estate	3,267	2,752	2,329	2,081	2,014
Service	17,126	16,423	15,438	15,075	14,901
State and local government	6,089	5,873	5,425	5,327	5,609
Federal government	8,139	8,507	10,094	9,531	9,252
Subtotal service-producing industries	41,737	40,354	39,588	38,174	37,877
Total nonfarm wage and salary worker	46,001	44,493	43,496	41,860	41,337
<b>Other (1)</b>	18,270	18,473	16,144	15,981	14,661
Total personal income	\$ 64,620	\$ 63,209	\$ 59,928	\$ 58,129	\$ 56,248
Total direct income tax rate (2)	N/A	N/A	N/A	N/A	N/A

(1) Includes dividends, interest, rental income, residence adjustment, government transfers to individuals, and deductions for social insurance.

(2) The total direct rate for personal income is not available.

**Source:** State of Hawaii Department of Business, Economic Development and Tourism – Data Book and Quarterly Statistical and Economic Report (QSER)  
Bureau of Economic Analysis – SQ5N Personal Income by major source and earnings by major NAICS industry.

N/A Not available.

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<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>\$ 232</b>	<b>\$ 220</b>	<b>\$ 213</b>	<b>\$ 210</b>	<b>\$ 213</b>
36	47	42	53	54
44	45	55	53	50
2,714	3,271	3,188	3,004	2,736
807	874	1,003	1,000	916
<b>3,601</b>	<b>4,237</b>	<b>4,288</b>	<b>4,110</b>	<b>3,756</b>
1,714	1,826	1,926	1,831	1,760
3,636	3,817	3,654	3,540	3,366
657	711	759	758	690
2,044	2,126	2,311	2,367	2,308
14,514	14,723	13,611	13,013	12,226
5,609	5,372	5,023	4,747	4,443
9,077	8,258	7,745	7,249	6,751
<b>37,251</b>	<b>36,833</b>	<b>35,029</b>	<b>33,505</b>	<b>31,544</b>
<b>40,852</b>	<b>41,070</b>	<b>39,317</b>	<b>37,615</b>	<b>35,300</b>
<b>13,329</b>	<b>12,891</b>	<b>10,601</b>	<b>9,514</b>	<b>8,598</b>
<b>\$ 54,413</b>	<b>\$ 54,181</b>	<b>\$ 50,131</b>	<b>\$ 47,339</b>	<b>\$ 44,111</b>
<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>



**State of Hawaii**  
**Revenue Capacity Information**  
**Personal Income Tax Rates**  
**Ten Years Ended December 31, 2014**

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Top Income Tax Rate is Applied to Taxable Income in Excess of						
Year	Top Rate	Single	Top Rate	Married Filing Jointly	Top Rate	Head of Household
2014	11.00% + \$16,379	\$ 200,000	11.00% + \$32,757	\$ 400,000	11.00% + \$24,568	\$ 300,000
2013	11.00% + \$16,379	200,000	11.00% + \$32,757	400,000	11.00% + \$24,568	300,000
2012	11.00% + \$16,379	200,000	11.00% + \$32,757	400,000	11.00% + \$24,568	300,000
2011	11.00% + \$16,379	200,000	11.00% + \$32,757	400,000	11.00% + \$24,568	300,000
2010	11.00% + \$16,379	200,000	11.00% + \$32,757	400,000	11.00% + \$24,568	300,000
2009	11.00% + \$16,379	200,000	11.00% + \$32,757	400,000	11.00% + \$24,568	300,000
2008	8.25% + \$3,214	48,000	8.25% + \$6,427	96,000	8.25% + \$4,820	72,000
2007	8.25% + \$3,214	48,000	8.25% + \$6,427	96,000	8.25% + \$4,820	72,000
2006	8.25% + \$2,678	40,000	8.25% + \$5,356	80,000	8.25% + \$4,017	60,000
2005	8.25% + \$2,678	40,000	8.25% + \$5,356	80,000	8.25% + \$4,017	60,000

**Source:** State of Hawaii, Department of Taxation.

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**State of Hawaii**  
**Revenue Capacity Information**  
**Taxable Sales by Industry**  
**Ten Years Ended June 30, 2014**  
**(Amounts in millions)**

	<b>Fiscal Year Ended June 30,</b>				
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Taxable sales by activities</b>					
Retailing	\$ 31,152	\$ 29,636	\$ 29,095	\$ 25,887	\$ 23,919
Services	13,795	12,985	12,696	11,944	11,154
Contracting	7,046	7,547	6,253	5,687	5,864
Hotel rentals	4,279	3,871	3,431	3,024	2,606
All other rentals	6,472	6,377	6,154	5,999	5,778
All other (4%)	5,683	5,337	5,160	4,825	4,360
Subtotal	68,427	65,753	62,789	57,366	53,681
Producing	436	399	401	370	340
Manufacturing	1,876	639	681	698	704
Wholesaling	14,675	14,430	14,442	13,121	12,207
Use (0.5%)	6,489	8,867	8,005	6,669	6,430
Services (intermediary)	1,096	628	653	577	572
Insurance solicitors	485	464	477	480	502
Subtotal	25,057	25,427	24,659	21,915	20,755
Total all activities	\$ 93,484	\$ 91,180	\$ 87,448	\$ 79,281	\$ 74,436

General excise and use tax is imposed on the gross income received by the business, as follows:

- 4% of sales of tangible personal property, services, contracting, theater amusement and broadcasting, commissions, transient accommodation rentals, other rentals, interest, and other business activities;
- 0.5% of sales from wholesaling, manufacturing, producing, wholesale services, and imports for resale;
- 0.15% on insurance producer commissions.

**Source:** State of Hawaii, Department of Taxation – Monthly Tax Collection Reports.

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<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
\$ 24,318	\$ 26,183	\$ 25,509	\$ 24,812	\$ 22,578
11,059	11,073	11,205	10,314	8,780
7,631	7,863	7,904	6,545	5,523
2,812	3,321	3,480	3,251	2,727
6,094	5,818	5,814	5,445	4,758
4,375	5,238	5,606	5,245	4,385
<u>56,289</u>	<u>59,496</u>	<u>59,518</u>	<u>55,612</u>	<u>48,751</u>
405	457	482	589	586
809	761	818	720	693
12,502	13,746	13,558	12,963	11,835
6,883	7,215	7,742	7,125	6,067
611	649	718	563	377
535	544	617	551	530
<u>21,745</u>	<u>23,372</u>	<u>23,935</u>	<u>22,511</u>	<u>20,088</u>
<u>\$ 78,034</u>	<u>\$ 82,868</u>	<u>\$ 83,453</u>	<u>\$ 78,123</u>	<u>\$ 68,839</u>

**State of Hawaii**  
**Revenue Capacity Information**  
**Sales Tax Revenue Payers by Industry**  
**Ten Years Ended June 30, 2014**  
**(Amounts in thousands)**

	Fiscal Year Ended June 30,									
	2014		2013		2012		2011		2010	
	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total
Retailing	\$ 1,246,061	43.3%	\$ 1,185,446	40.3%	\$ 1,163,805	43.1%	\$ 1,035,465	41.5%	\$ 956,761	41.3%
Services	551,784	19.2%	519,419	17.6%	507,864	18.8%	477,753	19.3%	446,142	19.3%
Contracting	281,839	9.8%	301,875	10.3%	250,122	9.3%	227,497	9.1%	234,562	10.1%
Theater, amusement, etc.	15,619	0.5%	15,986	0.5%	15,776	0.6%	14,945	0.6%	13,378	0.6%
Interest	3	0.0%	3	0.0%	4	0.0%	74	0.0%	191	0.0%
Commissions	45,125	1.6%	42,064	1.4%	38,848	1.4%	36,574	1.5%	33,024	1.4%
Hotel rentals	171,162	5.9%	154,837	5.3%	137,222	5.1%	120,954	4.8%	104,260	4.5%
All other rentals	258,886	9.0%	255,074	8.7%	246,151	9.1%	239,944	9.6%	231,123	10.0%
Use (4%)	40,277	1.4%	41,015	1.4%	41,797	1.6%	37,316	1.5%	34,484	1.5%
All other (4%)	126,306	4.4%	114,396	3.9%	109,989	4.1%	104,073	4.2%	93,327	4.0%
Pineapple canning	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Producing	2,181	0.1%	1,997	0.1%	2,004	0.1%	1,850	0.1%	1,697	0.1%
Manufacturing	9,380	0.3%	3,194	0.1%	3,402	0.1%	3,488	0.1%	3,517	0.2%
Wholesaling	73,373	2.5%	72,149	2.4%	72,210	2.7%	65,608	2.6%	61,036	2.6%
Use (0.5%)	32,446	1.1%	44,337	1.5%	40,026	1.5%	33,347	1.3%	32,152	1.4%
Services (Intermediary)	5,480	0.2%	3,139	0.1%	3,265	0.1%	2,886	0.1%	2,862	0.1%
Insurance solicitors	728	0.0%	697	0.0%	716	0.0%	721	0.0%	753	0.0%
Unallocated collections	19,893	0.7%	188,859	6.4%	64,750	2.4%	93,312	3.7%	67,165	2.9%
Total	\$ 2,880,543	100.0%	\$ 2,944,487	100.0%	\$ 2,697,951	100.0%	\$ 2,495,807	100.0%	\$ 2,316,434	100.0%

**Source:** State of Hawaii, Department of Taxation – Monthly Tax Collection Reports.

**Note:** Information for number of filers is not available

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2009		2008		2007		2006		2005	
Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total
\$ 972,728	40.1%	\$ 1,047,340	40.0%	\$ 1,020,357	39.9%	\$ 992,472	42.1%	\$ 903,104	42.3%
442,356	18.3%	442,909	17.0%	448,202	17.5%	412,576	17.5%	351,200	16.4%
305,241	12.6%	314,538	12.0%	316,142	12.4%	261,804	11.1%	220,916	10.3%
13,557	0.6%	13,998	0.5%	13,588	0.5%	12,791	0.5%	11,963	0.6%
339	0.0%	7,963	0.3%	13,818	0.5%	8,937	0.4%	5,953	0.3%
35,230	1.5%	42,500	1.6%	52,101	2.0%	55,306	2.4%	46,332	2.2%
112,484	4.6%	132,841	5.1%	139,186	5.5%	130,048	5.5%	109,090	5.1%
243,762	10.1%	232,718	8.9%	232,539	9.1%	217,799	9.3%	190,314	8.9%
34,088	1.4%	39,034	1.5%	37,548	1.5%	38,144	1.6%	33,831	1.6%
91,761	3.8%	106,040	4.0%	107,196	4.2%	94,636	4.0%	77,326	3.6%
-	0.0%	-	0.0%	76	0.0%	35	0.0%	25	0.0%
2,023	0.1%	2,286	0.1%	2,336	0.1%	2,908	0.1%	2,907	0.1%
4,045	0.2%	3,804	0.1%	4,091	0.2%	3,598	0.2%	3,463	0.2%
62,509	2.6%	68,730	2.6%	67,790	2.7%	64,814	2.8%	59,177	2.8%
34,415	1.4%	36,073	1.4%	38,712	1.5%	35,623	1.5%	30,333	1.4%
3,054	0.1%	3,242	0.1%	3,592	0.1%	2,813	0.1%	1,883	0.1%
803	0.0%	815	0.0%	925	0.0%	827	0.0%	796	0.0%
61,855	2.6%	123,953	4.8%	57,563	2.3%	20,186	0.9%	87,989	4.1%
<u>\$ 2,420,250</u>	<u>100.0%</u>	<u>\$ 2,618,784</u>	<u>100.0%</u>	<u>\$ 2,555,762</u>	<u>100.0%</u>	<u>\$ 2,355,317</u>	<u>100.0%</u>	<u>\$ 2,136,602</u>	<u>100.0%</u>

**State of Hawaii**  
**Debt Capacity Information**  
**Ratios of Outstanding Debt by Type**  
**Ten Years Ended June 30, 2014**  
**(Amounts in thousands except per capita data)**

	<b>Fiscal Year Ended June 30,</b>				
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Governmental activities</b>					
General obligation bonds	\$ 5,784,139	\$ 5,534,921	\$ 5,475,348	\$ 4,987,544	\$ 5,157,198
Revenue bonds	412,725	441,150	468,180	378,625	400,215
Capital leases	102,622	89,879	95,340	100,520	64,385
Total governmental activities	6,299,486	6,065,950	6,038,868	5,466,689	5,621,798
<b>Business-type activities</b>					
General obligation bonds	31,176	32,934	34,611	36,221	37,362
Revenue bonds	1,278,137	1,326,112	1,370,314	1,410,624	1,248,680
Lease revenue certificates of participation	173,771	-	-	-	-
Total business-type activities	1,483,084	1,359,046	1,404,925	1,446,845	1,286,042
Total primary government	\$ 7,782,570	\$ 7,424,996	\$ 7,443,793	\$ 6,913,534	\$ 6,907,840
<b>Hawaii total personal income</b>	\$ 64,620,000	\$ 63,209,000	\$ 59,928,000	\$ 58,129,000	\$ 56,248,000
<b>Debt as a percentage of personal income</b>	12.0%	11.7%	12.4%	11.9%	12.3%
<b>Hawaii population</b>	1,420	1,404	1,392	1,375	1,300
<b>Amount of debt per capita</b>	\$ 5,481	\$ 5,288	\$ 5,348	\$ 5,028	\$ 5,314

**Source:** State of Hawaii, Comprehensive Annual Financial Reports.  
State of Hawaii, Department of Business, Economic Development and Tourism – QSER.

**Note:** Details regarding the State's outstanding debt can be found in the notes to basic financial statements.

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2009	2008	2007	2006	2005
\$ 4,779,666	\$ 4,408,572	\$ 4,079,714	\$ 4,322,964	\$ 4,256,633
420,605	268,425	283,310	306,255	319,305
71,685	75,480	79,090	58,035	61,340
5,271,956	4,752,477	4,442,114	4,687,254	4,637,278
38,329	38,357	37	137	167
861,423	861,141	939,349	883,823	927,695
-	-	-	-	-
899,752	899,498	939,386	883,960	927,862
\$ 6,171,708	\$ 5,651,975	\$ 5,381,500	\$ 5,571,214	\$ 5,565,140
\$ 54,413,000	\$ 54,181,000	\$ 50,131,000	\$ 47,339,000	\$ 44,111,000
11.3%	10.4%	10.7%	11.8%	12.6%
1,295	1,287	1,299	1,285	1,273
\$ 1,766	\$ 4,392	\$ 4,143	\$ 4,336	\$ 4,372



**State of Hawaii**  
**Debt Capacity Information**  
**Ratios of Net General Bonded Debt Outstanding**  
**Ten Years Ended June 30, 2014**  
**(Amounts in thousands except ratio data)**

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<b>Fiscal Year</b>	<b>Taxable Sales (1)</b>	<b>Population (2)</b>	<b>General Obligation Bonded Debt (3)(4)</b>	<b>Less: Debt Services Monies Available (3)</b>	<b>Net General Obligation Bonded Debt</b>	<b>Percentage of Taxable Sales</b>	<b>Net General Obligation Bonded Debt Per Capita</b>
2014	\$ 93,484,000	1,420	\$ 5,784,139	\$ 35	\$ 5,784,104	6.2%	\$ 4,073
2013	91,181,000	1,404	5,534,921	63	5,534,858	6.1%	3,942
2012	87,448,000	1,392	5,475,348	64	5,475,284	6.3%	3,933
2011	79,281,000	1,375	4,987,544	109	4,987,435	6.3%	3,627
2010	74,436,000	1,300	5,157,198	118	5,157,080	6.9%	3,967
2009	78,034,000	1,295	4,779,666	68	4,779,598	6.1%	3,691
2008	82,868,000	1,287	4,408,572	22	4,386,570	5.3%	3,395
2007	83,453,000	1,276	4,079,714	22	4,058,010	5.2%	3,124
2006	78,123,000	1,285	4,322,694	7	4,315,738	5.9%	3,359
2005	68,839,000	1,273	4,256,633	184	4,256,449	6.4%	3,344

- (1) **Source:** State of Hawaii, Department of Taxation.
- (2) **Source:** State of Hawaii, Department of Business, Economic Development and Tourism – Census Data.
- (3) **Source:** State of Hawaii, Department of Accounting and General Services, Accounting Division.
- (4) Excludes Enterprise Funds and Component Unit – UH general obligation bonds.

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**State of Hawaii**  
**Debt Capacity Information**  
**Legal Debt Margin Information**  
**Ten Years Ended June 30, 2014**  
**(Amounts in thousands)**

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	<b>Fiscal Year Ended June 30,</b>				
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Average general fund revenues of the three preceding fiscal years	\$ 5,987,800	\$ 5,659,152	\$ 5,197,547	\$ 4,992,943	\$ 5,032,973
Constitutional debt limit percentage	18.5%	18.5%	18.5%	18.5%	18.5%
Constitutional debt limit for total principal and interest payable in a current or future year	1,107,743	1,046,943	961,546	923,694	931,100
Less: Total principal and interest payable on outstanding general obligation bonds in highest debt service year (fiscal year ended June 30, 2012)	(693,677)	(693,592)	(667,041)	(618,711)	(610,255)
Legal debt margin	\$ 414,066	\$ 353,351	\$ 294,505	\$ 304,983	\$ 320,845
Legal debt margin as a percentage of the debt limit	37.4%	33.8%	30.6%	33.0%	34.5%

The formula for the legal debt limit is contained in Article VII, Section 13 of the State Constitution.

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<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
\$ 5,126,782	\$ 5,083,126	\$ 4,832,700	\$ 4,423,191	\$ 4,043,868
<u>18.5%</u>	<u>18.5%</u>	<u>18.5%</u>	<u>18.5%</u>	<u>18.5%</u>
948,455	940,378	894,050	818,290	748,116
<u>(563,266)</u>	<u>(540,348)</u>	<u>(550,696)</u>	<u>(533,810)</u>	<u>(516,641)</u>
\$ 385,189	\$ 400,030	\$ 343,354	\$ 284,480	\$ 231,475
<u>40.6%</u>	<u>42.5%</u>	<u>38.4%</u>	<u>34.8%</u>	<u>30.9%</u>

# State of Hawaii

## Debt Capacity Information

### Pledge Revenue Coverage

#### Ten Years Ended June 30, 2014

(Amounts in thousands)

	Fiscal Year Ended June 30,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Revenue bonds – Airports</b>										
Gross revenue (1)	\$ 341,155	\$ 385,841	\$ 319,542	\$ 322,639	\$ 295,087	\$ 288,583	\$ 307,418	\$ 286,838	\$ 267,927	\$ 245,464
Less: Operating expenses (2)	246,982	244,328	230,224	218,290	214,208	233,896	239,667	211,119	171,990	150,332
Net available revenue	94,173	141,513	89,318	104,349	80,879	54,687	67,751	75,719	95,937	95,132
Debt services										
Principal (3)	34,210	40,305	30,579	25,370	23,615	22,310	21,140	32,250	30,565	25,250
Interest (4)	23,414	40,705	34,440	35,319	21,300	17,453	26,076	10,868	11,557	21,516
Total debt services	57,624	81,010	65,019	60,689	44,915	39,763	47,216	43,118	42,122	46,766
Coverage (5)	163%	175%	137%	172%	180%	138%	143%	176%	228%	203%
<b>Revenue bonds – Harbors</b>										
Gross revenue (6)	\$ 122,379	\$ 114,640	\$ 104,678	\$ 88,018	\$ 74,155	\$ 80,896	\$ 96,256	\$ 97,414	\$ 89,402	\$ 79,319
Less: Operating expenses (7)	43,837	44,048	41,202	37,650	36,930	47,814	49,229	42,967	35,140	36,053
Net available revenue	78,542	70,592	63,476	50,368	37,225	33,082	47,027	54,447	54,262	43,266
Debt services	31,528	31,531	27,770	27,965	23,226	23,167	24,290	25,364	19,265	19,224
Coverage (5)	249%	224%	229%	180%	160%	143%	194%	215%	282%	225%
<b>Revenue bonds – Highways</b>										
Gross revenue	N/A	\$ 428,136	\$ 232,543	\$ 197,142	\$ 184,852	\$ 189,498	\$ 213,378	\$ 210,989	\$ 204,287	\$ 190,438
Less: Operating expenses	N/A	245,863	173,811	165,857	179,400	189,987	184,097	172,167	172,633	121,776
Net available revenue	N/A	182,273	58,732	31,285	5,452	(489)	29,281	38,822	31,654	68,662
Debt services										
Principal	27,685	26,320	22,465	21,570	20,535	16,150	15,495	14,885	14,295	11,800
Interest	19,658	21,047	18,906	17,195	18,028	15,823	12,930	12,988	14,096	13,043
Total debt services	47,343	47,367	41,371	38,765	38,563	31,973	28,425	27,873	28,391	24,843
Coverage (8)	N/A	385%	142%	81%	14%	-2%	103%	139%	111%	276%
<b>Revenue bonds – Department of Hawaiian Home Lands</b>										
Revenue	\$ 15,763	\$ 12,585	\$ 12,078	\$ 12,036	\$ 11,939	\$ -	\$ -	\$ -	\$ 10,289	\$ 8,611
Less: Operating expenses	-	-	-	-	-	-	-	-	6,321	5,601
Net available revenue	15,763	12,585	12,078	12,036	11,939	-	-	-	3,968	3,010
Debt services										
Principal	740	710	680	655	640	-	-	-	1,250	1,200
Interest	2,270	2,301	2,328	2,254	2,370	-	-	-	391	440
Total debt services	3,010	3,011	3,008	2,909	3,010	-	-	-	1,641	1,640
Coverage (5)	524%	418%	402%	414%	397%	0%	0%	0%	242%	184%

- (1) Total operating revenues plus interest income and federal operating grants, exclusive of interest earned on investment in financing leases.
- (2) Total operating expenses other than depreciation less (plus) excess of actual disbursements over (under) required reserve for major maintenance, renewal and replacement plus amounts required to be paid into the General Fund for general obligation bond requirements.
- (3) On January 5, 2005, Airports disbursed \$69,300,000 for the Airport Revenue Fund to the paying agent to redeem the outstanding balance of the Airports System Revenue Bonds, Refunding Series of 2003 in its entirety.
- (4) For purposes of calculating the debt service requirement, interest payments for airports system revenue bonds exclude the amortization of the deferred loss on refunding and original issue discount and premium, which are reported as interest expense for financial statement reporting purposes.  
For fiscal 2005, Airports deposited \$20,000,000 of available funds into the Airport Revenue Fund for credit to the interest account in the current year to reduce the amount required pursuant to the provisions of Section 6.01 to be paid or credited during fiscal 2005 to the interest account as required in the "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds."  
For fiscal 2008, Airports deposited \$10,000,000 of available funds into the Airports Revenue Fund for credit to the interest account in the current year to reduce the amount required pursuant to the provisions of Section 6.01 to be paid or credited during fiscal 2008 to the interest account as required in the "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds."  
For fiscal 2014, Airports transferred \$19,000,000 of available funds from the Prepaid Airport Use Charge Fund into the Airport Revenue Fund for credit to the interest account in the current year to reduce the amount required to be deposited to the interest account, pursuant to the provisions of Section 6.01 in the "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds."
- (5) Revenue bond indentures require a minimum debt service coverage percentage of 125%.
- (6) Total operating and nonoperating revenues exclusive of interest income on investment in financing leases and special facility construction fund and revenue fund investments.
- (7) Total operating expenses other than depreciation, less State of Hawaii surcharge for central service expenses.
- (8) Highways revenue bond indentures require a minimum debt service coverage percentage of 100% during a routine year, 200% during the year bonds are issued, and 135% is required for any year Highways' funds are transferred out (i.e., General Fund).

N/A Not available

Coverage equals net available revenue divided by debt services.

**Source:** Airports Audited Financial Statements and Schedules of the State of Hawaii, Department of Transportation, Airports Division.  
Harbors Financial Statements and Schedules of the State of Hawaii, Department of Transportation, Harbors Division.  
Highways Financial Statements and Schedules of the State of Hawaii, Department of Transportation, Highways Division.

# State of Hawaii

## Demographic and Economic Information

### Demographic and Economic Statistics

#### Ten Years Ended June 30, 2014

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	Fiscal Year Ended June 30,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Population</b>										
<b>(in thousands)</b>										
State	1,420	1,404	1,392	1,375	1,300	1,298	1,287	1,276	1,285	1,273
Percentage change	1.14%	0.85%	1.22%	5.77%	0.15%	0.46%	0.54%	1.09%	1.50%	1.04%
National	318,857	316,129	313,914	311,592	308,746	307,007	304,375	301,580	285,593	295,753
Percentage change	0.86%	0.70%	0.74%	0.92%	0.57%	0.86%	0.93%	1.00%	0.96%	0.92%
<b>Total personal income</b>										
<b>(in millions)</b>										
State	\$ 64,620	\$ 63,209	\$ 59,928	\$ 58,129	\$ 56,248	\$ 54,413	\$ 54,181	\$ 50,131	\$ 47,339	\$ 44,111
Percentage change	2.23%	5.19%	3.00%	3.34%	3.37%	0.43%	8.08%	5.90%	7.32%	7.51%
National	\$ 14,420,041	\$ 13,904,502	\$ 13,150,560	\$ 12,691,347	\$ 12,530,101	\$ 12,015,535	\$ 12,225,589	\$ 11,879,836	\$ 11,256,516	\$ 10,476,669
Percentage change	3.71%	5.42%	3.49%	1.29%	4.28%	(1.72%)	2.91%	5.54%	7.44%	5.52%
<b>Per capita personal income</b>										
<b>(in thousands)</b>										
State	\$ 45,507	\$ 45,021	\$ 43,052	\$ 42,276	\$ 43,268	\$ 42,018	\$ 42,099	\$ 39,073	\$ 37,013	\$ 34,788
Percentage change	1.08%	4.37%	1.80%	(2.29%)	2.97%	(0.19%)	7.74%	5.57%	6.40%	6.33%
National	\$ 45,224	\$ 43,984	\$ 41,892	\$ 40,731	\$ 40,584	\$ 39,138	\$ 40,166	\$ 39,392	\$ 37,698	\$ 35,424
Percentage change	2.82%	4.75%	2.77%	0.36%	3.69%	(2.56%)	1.96%	4.49%	6.42%	4.45%
<b>Resident civilian labor force and employment</b>										
Civilian labor force employed	624,638	615,546	615,333	591,329	587,304	594,500	620,000	623,150	622,300	609,850
Unemployed	30,142	33,913	43,321	39,941	41,600	43,250	26,000	17,000	15,800	17,250
Unemployment rate	4.60%	5.20%	6.60%	6.30%	6.60%	6.80%	4.00%	2.70%	2.50%	2.90%

**Source:** State of Hawaii, Department of Business, Economic Development and Tourism – QSER.  
Bureau of Economic Analysis – Regional Economic Accounts.  
State of Hawaii, Department of Labor and Industrial Relations –  
Hawaii Workforce Infonet (HWI).

**Note:** The Per Capita Personal Income amount is computed by dividing Personal Income by Population, multiplied by 1,000.

**State of Hawaii**  
**Demographic and Economic Information**  
**Ten Largest Private Sector Employers**  
**June 30, 2014 and June 30, 2005**

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2014			2005		
Employer	Employees	Percentage of Total State Employment	Employer	Employees	Percentage of Total State Employment
Bank of Hawaii Corp	2,261	0.3%	Aloha Airgroup Inc.	3,701	0.6%
First Hawaiian Bank	2,056	0.3%	Hawaii Pacific Health	5,449	0.9%
Hawaii Pacific Health	6,307	1.0%	Hawaiian Airlines, Inc.	3,300	0.5%
Hawaiian Electric Industries, Inc.	3,966	0.6%	Hawaiian Electric Industries, Inc.	3,354	0.5%
Hawaiian Holdings, Inc.	5,249	0.8%	Kaiser Permanente Hawaii	3,918	0.6%
Kaiser Permanente Hawaii	4,371	0.7%	Kyo-ya Co. Ltd	3,574	0.6%
Kamehameha Schools	2,300	0.4%	Marriott International	3,698	0.6%
Kyo-ya Company LLC	2,964	0.5%	McDonald's Restaurants of Hawaii	3,750	0.6%
Securitas Security Services USA, Inc.	2,400	0.4%	Starwood Hotels and Resorts Hawaii	3,500	0.6%
The Queen's Health Systems	5,585	0.9%	The Queen's Health Systems	3,673	0.6%

**Source:** Hawaii Business, Annual August Issue.  
State of Hawaii, Department of Labor and Industrial Relations – HWI – Labor  
(Total State Employees).

**Note:** Total Annual Average Employment for Hawaii for fiscal year 2014 – 655,000 and for  
fiscal year 2005 – 617,000.

Listed alphabetically.

**State of Hawaii**  
**Demographic and Economic Information**  
**State Employees by Function**  
**Ten Years Ended June 30, 2014**

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	Fiscal Year Ended June 30,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General government	4,572	4,419	4,394	4,381	4,381	4,752	4,720	4,523	4,638	4,698
Public safety	3,175	2,981	2,903	2,864	2,880	3,089	3,011	2,889	2,881	2,828
Transportation	2,254	2,275	2,202	2,160	2,158	2,290	2,229	2,222	2,287	2,266
Conservation of natural resources	1,007	972	929	941	983	1,146	1,126	1,041	1,040	976
Health	6,813	7,136	6,919	6,876	6,863	7,266	6,730	6,909	6,906	6,697
Welfare	1,941	1,940	1,800	1,788	1,848	2,404	2,312	2,242	2,386	2,400
Lower education	21,797	21,976	22,065	21,917	22,090	22,675	22,620	23,521	22,771	22,104
Higher education	9,080	8,978	8,795	8,687	8,732	9,066	8,705	8,619	8,375	8,108
Other education	492	-	454	473	482	516	518	509	523	505
Urban redevelopment and housing	127	116	127	130	146	154	150	147	136	131
Economic development and assistance	759	781	815	816	835	1,141	865	850	864	912
Total	52,017	51,574	51,403	51,033	51,398	54,499	52,986	53,472	52,807	51,625

**Source:** State of Hawaii, Department of Human Resources Development.



**State of Hawaii**  
**Operating Information**  
**Operating Indicators by Function**  
**Ten Years Ended June 30, 2014**

	<b>Fiscal Year Ended June 30,</b>				
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>General government</b>					
Tax Commission					
Total individual net income returns	737,205	612,373	703,262	747,237	665,057
Number of individual net income returns filed electronically	483,817	397,178	430,421	388,463	322,515
Percentage of individual net income returns transmitted electronically	65.63%	64.86%	61.20%	51.99%	48.49%
<b>Public safety</b>					
Inmate population					
In-state facilities	4,456	4,438	4,396	4,423	4,047
Out-of-state facilities	1,363	1,415	1,677	1,667	1,940
Total	<b>5,819</b>	<b>5,853</b>	<b>6,073</b>	<b>6,090</b>	<b>5,987</b>
<b>Conservation and natural resources</b>					
Department of Parks and Recreation					
Number of state-owned parks	51	53	53	53	53
<b>Health</b>					
Environmental health					
Air quality sites monitored	13	14	12	14	13
Water quality stations	173	173	193	201	290
Mental health					
Adult consumers served	10,408	10,728	11,062	11,194	14,633
Individuals with developmental disabilities served	2,615	2,599	2,558	2,438	2,661
Revolving loan funds	149	133	120	109	107
<b>Welfare</b>					
Temporary assistance to needy families recipients/temporary assistance to other needy families recipients (TANF/TAONF)					
Families per-month average	8,927	10,075	10,300	10,014	9,448
Average time on assistance	N/A	14.6	13.5	13.0	15.0
Monthly benefits paid for the month of July (in millions)	\$ 4.10	\$ 5.47	\$ 6.42	\$ 6.17	\$ 5.29
General assistance					
Individuals per month	5,598	5,687	5,633	5,298	5,068
Food stamp program					
Number of persons participating	193,565	187,062	172,676	154,496	133,043
Number of households participating	98,440	94,649	86,418	77,133	66,885
Benefits issued (in millions)	\$ 43.39	\$ 40.33	\$ 37.18	\$ 33.42	\$ 28.74
Medicaid programs					
MedQuest enrollment	325,510	292,423	287,902	272,218	259,307

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<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
682,178	678,305	667,297	602,375	595,035
308,366	271,212	231,154	196,959	156,199
45.20%	39.98%	34.64%	32.70%	26.25%
3,928	6,014	6,045	6,251	6,092
<u>2,077</u>	<u>2,014</u>	<u>2,009</u>	<u>1,844</u>	<u>1,730</u>
<u>6,005</u>	<u>8,028</u>	<u>8,054</u>	<u>8,095</u>	<u>7,822</u>
53	53	53	53	N/A
14	14	16	16	N/A
349	271	363	363	N/A
15,772	15,586	13,545	12,245	10,136
2,879	2,821	3,360	2,300	3,302
102	90	73	65	53
8,661	8,358	8,381	9,837	10,642
14.0	13.0	16.0	15.0	15.0
\$ 3.46	\$ 4.75	\$ 4.60	\$ 5.09	\$ 5.96
5,014	4,458	3,955	3,917	3,994
109,268	93,956	88,847	88,967	95,032
54,925	47,545	45,026	46,285	47,795
\$ 20.22	\$ 14.64	\$ 12.89	\$ 12.49	\$ 12.98
235,203	211,105	202,126	203,345	200,534

(continued)

**State of Hawaii**  
**Operating Information**  
**Operating Indicators by Function**  
**Ten Years Ended June 30, 2014**

	<b>Fiscal Year Ended June 30,</b>				
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Lower education</b>					
Number of schools	288	286	286	287	286
Number of students	185,273	183,251	181,213	178,208	178,649
<b>Staff</b>					
Classroom teachers	11,781	11,632	11,458	11,046	11,262
Librarians	185	192	199	204	225
Counselors	625	629	627	618	646
Administrators	833	823	806	734	728
Other support staff	9,014	8,987	8,975	8,408	8,607
<b>Total</b>	<b>22,438</b>	<b>22,263</b>	<b>22,065</b>	<b>21,010</b>	<b>21,468</b>
<b>Higher education</b>					
<b>Enrollment</b>					
Number of credit students	57,052	58,941	60,295	60,330	60,090
<b>Degrees earned</b>					
Certificates/Associate Degrees/Advanced Professional certificates	5,158	4,097	3,638	3,324	3,025
Bachelor's degrees	4,408	4,236	4,055	3,796	3,593
Master's degrees/Professional diploma	1,179	1,095	1,287	1,269	1,216
Doctor's degrees/First Professional	467	508	494	496	351
Other	66	65	154	103	106
<b>Total</b>	<b>11,278</b>	<b>10,001</b>	<b>9,628</b>	<b>8,988</b>	<b>8,291</b>
<b>Degrees by campus/college</b>					
University of Hawaii at Manoa	4,949	4,737	4,767	4,675	4,414
University of Hawaii at Hilo	806	809	915	731	601
University of Hawaii at West Oahu	352	349	301	255	242
Hawaii Community College	669	552	452	405	426
Honolulu Community College	683	551	565	559	486
Kapiolani Community College	1,513	1,193	987	851	783
Kauai Community College	203	216	196	208	162
Leeward Community College	1,090	770	721	657	608
Maui Community College	660	601	560	482	416
Windward Community College	353	223	164	165	153
<b>Total</b>	<b>11,278</b>	<b>10,001</b>	<b>9,628</b>	<b>8,988</b>	<b>8,291</b>

N/A Not available.

**Note:** Migration to new registration system at the UH Community Colleges in Fall 2006 and at UH Mānoa, UH at Hilo, and UH at West Oahu in Fall 2006.

**Source:** General Government – State of Hawaii, Department of Taxation.  
Public Safety – State of Hawaii, Department of Public Safety.  
Conservation of Natural Resources – State of Hawaii, Department of Land and Natural Resources.  
Health – State of Hawaii, Department of Health.  
Welfare – State of Hawaii, Department of Human Services.  
Lower Education – State of Hawaii, Department of Education.  
Higher Education – University of Hawaii.

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2009	2008	2007	2006	2005
289	287	286	285	285
177,871	178,369	179,234	181,406	181,897
11,294	11,396	11,270	11,226	11,146
249	257	272	292	291
660	660	670	671	657
747	773	746	706	701
8,654	8,566	8,103	8,164	7,735
21,604	21,652	21,061	21,059	20,530
57,945	53,526	50,454	49,990	50,157
2,785	2,660	2,710	2,637	2,671
3,705	3,698	3,586	3,639	3,294
1,185	1,269	1,219	1,320	1,262
354	369	320	321	310
55	-	-	-	-
8,084	7,996	7,835	7,917	7,537
4,496	4,566	4,313	4,401	4,175
614	588	592	614	497
221	180	217	265	194
386	346	311	339	315
504	520	537	515	561
702	685	757	641	731
163	139	135	114	165
503	475	514	533	482
364	367	336	360	306
131	130	123	135	111
8,084	7,996	7,835	7,917	7,537

(concluded)

**State of Hawaii**  
**Operating Information**  
**Capital Assets Statistics by Function**  
**Ten Years Ended June 30, 2014**

	Fiscal Year Ended June 30,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>General government</b>										
Department of Accounting and General Services	78	74	74	74	74	74	72	71	10	10
Buildings	650	608	600	592	582	602	571	553	581	701
Vehicles										
Department of the Attorney General										
Buildings	6	5	5	5	5	5	5	5	5	5
Vehicles	3	3	3	3	3	3	2	1	1	1
The Judiciary										
Buildings	19	19	18	18	18	18	17	17	17	17
Vehicles	18	18	18	17	16	15	13	14	15	43
Other departments										
Buildings	23	22	24	24	24	23	23	23	21	21
Vehicles	4	4	4	4	4	4	5	6	6	6
<b>Public Safety</b>										
Department of Public Safety										
Buildings and correction facilities	75	74	74	74	73	72	71	71	71	72
Vehicles	279	274	277	278	277	262	260	245	241	228
Department of Defense										
Buildings	98	98	97	97	96	96	96	100	98	93
Vehicles	128	118	112	81	79	79	79	84	77	80
Department of Commerce and Consumer Affairs										
Buildings	4	4	4	4	4	4	4	4	4	4
Vehicles	-	-	-	-	1	-	-	-	-	-
<b>Highways</b>										
Department of Transportation										
Highway lane miles	2,488	N/A	N/A	N/A	2,497	2,479	2,478	2,466	2,433	2,438
Highway bridges	752	N/A	N/A	N/A	752	752	752	752	752	752
Buildings	37	36	36	34	34	34	29	26	26	26
Vehicles	982	984	951	958	968	963	949	932	918	894

**Source:** Buildings and Vehicles – State of Hawaii, Department of Accounting and General Services.  
Lane Miles and Highway Bridges – State of Hawaii, Department of Transportation.  
Land Area – State of Hawaii, Data Book 2013.

	Fiscal Year Ended June 30,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Conservation of natural resources</b>										
Department of Land and Natural Resources										
Land area (in square miles)	6,423	6,423	6,423	6,423	6,423	6,423	6,423	6,423	6,423	6,423
Buildings	96	94	93	95	95	95	74	76	75	75
Vehicles	785	788	756	758	732	731	706	681	597	669
Department of Agriculture										
Buildings	32	32	32	32	32	32	32	31	27	27
Vehicles	166	167	170	176	186	186	184	166	167	166
<b>Health</b>										
Department of Health										
Buildings	74	74	74	74	74	72	71	75	69	68
Vehicles	227	238	252	259	280	284	295	292	283	290
<b>Welfare</b>										
Department of Human Services										
Buildings	18	18	18	18	18	18	18	18	18	18
Vehicles	116	110	107	111	111	117	128	126	134	132
<b>Lower education</b>										
Department of Education										
Buildings	8	8	8	8	8	8	8	8	8	7
<b>Other education</b>										
Department of Education – libraries										
Buildings	38	38	34	34	34	34	34	34	34	34
Vehicles	25	27	28	27	28	28	30	31	33	32
<b>Urban redevelopment and housing</b>										
Department of Hawaiian Home Lands										
Buildings	18	18	18	18	18	17	16	18	15	12
Vehicles	33	37	33	34	34	34	33	30	29	26
<b>Economic development and assistance</b>										
Department of Business, Economic Development and Tourism										
Buildings	32	32	33	33	33	33	32	27	30	28
Vehicles	28	30	32	33	34	34	39	37	36	40
Department of Labor and Industrial Relations										
Buildings	8	8	8	8	8	8	8	8	8	8
Vehicles	2	2	2	2	2	2	2	2	2	6